

Australia	S\$2.22	Indonesia	Rp3200	Portugal	Esc200
Belgium	BF40	Italy	L.500	S. Arabia	Ria 00
Canada	C\$1.00	Japan	Y160	Singapore	S\$1.00
Cyprus	C\$0.75	Jordan	Jds 00	Sri Lanka	Ru20
Denmark	Dkr5.00	Kuwait	Ku 00	Sweden	Skr 00
Egypt	E£2.25	Lebanon	L.L. 00	Switzerland	Sfr 00
Finland	Fmk7.00	Luxembourg	Lfr 00	Taiwan	Nt\$20
France	FF4.50	Malaysia	RM 00	Thailand	Thb 00
Germany	DM2.00	Mexico	Ps300	Turkey	TL 00
Greece	Dr100	Morocco	Md 00	UAE	Dhs 00
Hong Kong	HK\$1.00	Netherlands	Fl 00	USA	\$1.00
India	Rp15	Norway	Nkr 00		

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

Monday September 28 1987

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European steel: Crunch
time for
plant closures, Page 26

No. 30,348

World News

Philippines troops clash with NPA rebels

Philippine government troops clashed with communist rebels of the New People's Army, about 40 miles north of Manila following renewed fighting last week. Helicopter gunships and Philippine marines were sent in to help government infantry. At least three soldiers were reported killed. Politician attacks foreign debt, Page 2

Kuwait crackdown

Kuwait has begun a crackdown on tens of thousands of foreigners living there illegally in an effort to tighten security following the recent spate of sabotage attacks ascribed to Moslem fundamentalists, Page 2

23 die in bus crash

At least 23 people, including three children, were killed and more than 50 were injured when an overcrowded Bangladesh bus skidded into a flooded canal about 25 kilometres from Dhaka.

Bush in Poland

US Vice-President George Bush met General Wojciech Jaruzelski, the Polish leader, on the second day of his visit to Poland, designed to speed up an improvement in relations which broke down six years ago when martial law was imposed. Page 5

Tamil leader dies

Violence broke out in eastern Sri Lanka after the death of a Tamil militia leader after a 12-day hunger strike. Page 6

Cairo metro opens

President Hosni Mubarak of Egypt and Jacques Chirac, the French Prime Minister, inaugurated Cairo's underground rail system, largely financed through soft loans and credits from France. Page 5

Talks on Angola

Jose Eduardo dos Santos, the first Angolan President to visit Portugal since independence 12 years ago, is in Lisbon to mend a potentially rocky relationship strained by five centuries of colonialism. Page 6

Basque car bomb

A car bomb killed a policeman and injured six others in the Basque city of San Sebastian. The bomb, hidden in a parked car, exploded as the officer drove past. No group claimed responsibility but police suspected the Basque separatist organisation Eta.

Journalists face jail

Two Taiwanese journalists who visited China in defiance of a ban on contacts with Peking returned home to face a possible three-year jail sentence.

Blast in Athens

Police investigating a bomb blast outside a US forces commissary in central Athens found and dismantled a second explosive device near the building. The explosion outside the commissary shattered windows but caused no injuries.

Hong Kong rally

Nearly 5,000 people attended a rally in a Hong Kong park to press for direct legislative elections three days before the government ends a period of public consultation on political reforms.

New Peru minister

The Peruvian Government named a senior ruling party member, Alberto Vera in Rose, 61, an engineer, as Industry Minister, replacing a businessman who resigned two weeks ago in opposition to President Alan Garcia's plan to nationalise private banks.

Found in the hay

Israeli soldiers found three Palestinians in a hay-filled lorry bound for Egypt, five days after they escaped from the Nafaha maximum security prison.

Mansell wins GP

British Nigel Mansell won the Spanish Grand Prix in Jerez, to keep alive his hopes of winning the drivers' championship.

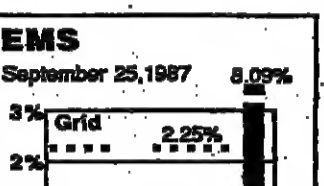
Business Summary

Storehouse faces £2bn bid by Benlox

BENLOX HOLDINGS, small UK engineering and investment holding group, launched a £2bn (£3.5bn) all-share bid for Storehouse, UK retailing group headed by Sir Terence Conran. Benlox, which is 21.7 per cent owned by Egyptian financier Dr Ashwan Marwan, said it would "demerge" the group into a number of specialist retail stores. Page 8

EUROPEAN Monetary System: Most currencies showed little overall change from the previous week, with many markets subdued ahead of the weekend. The French franc remained the only member to show an improvement in relation to its Ecu central rate. Page 16

The Danish krone remained the weakest currency, followed by the Belgian franc. The French franc remained the only member to show an improvement in relation to its Ecu central rate. Page 16



The chart shows the two currencies on European Monetary System rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move more than 2 1/4 per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (Ecu), a basket of European currencies.

NEW YORK Stock Exchange intervened in the weekend in the tangled legal battle for control of Newmont Mining, the US gold and energy group, when it attempted to uphold last week's huge purchase of Newmont Mining stock by Consolidated Gold Fields, the UK mining finance house. Page 23

BOC, British group of gas and health care companies, has formed a joint venture with a chemicals company in Shanghai to operate China's first liquefied gas plant. Page 8

AMSTRAD, UK consumer electronics company, is likely to announce today the purchase of Indecomp, the Madrid-based distribution company that has helped it dominate the Spanish personal computer market. Page 8

QUEBEC Securities Commission has charged seven people, including former province Conservative president Robert Blais, with insider dealing in shares of Montreal company Memotec Data. Page 2

ASEA, Swedish electrical engineering group, has reached agreement with local trade unions on its planned merger with BRC Brown Boveri of Switzerland to form the world's largest electrical engineering concern. Page 32

FRENCH industrialist Bernard Tapie is giving up taking over and rebuilding failed companies and is reorganising his interests, forming a FF600m (£163m) holding company Bernard Tapie Finances. Page 32

Reagan bids to cut deficit as G7 tries to steady markets

BY PHILIP STEPHENS AND STEWART FLEMING IN WASHINGTON

LEADING INDUSTRIAL nations sought this weekend to calm financial markets by pledging to seek continued exchange rate stability and to underpin it if necessary with further shifts in economic policies. The reaffirmation of February's dollar came as President Reagan announced he would sign a bill which the administration said would pave the way for further cuts in the US budget deficit. A communiqué released by Finance Ministers and central bankers of the Group of Seven particularly welcomed the President's announcements. Along with promises by Japan and West Germany to maintain growth in their economies, it would reinforce efforts to stabilise exchange rates around current levels, the communiqué said. In a co-ordinated display of public unanimity clearly aimed at reassuring the markets, the Finance Ministers insisted that there had been no dispute over the renewed commitment to support the dollar. Mr Nigel Lawson, Britain's Chancellor of the Exchequer, said that the seven - the US, Japan, West Germany, France, Britain, Canada and Italy - had not altered the unpublished currency ranges set in February. Beneath the surface of the talks, however, there were signs of unease over the rising trend of interest rates in the industrialised world and over the ability of central banks to sustain their recent level of intervention to prop up the US currency. West Germany faced private criticism over the slow pace of growth in its economy while Japan was pressed for assurances that it would continue to hold down interest rates. Mr James Baker, the US Treasury Secretary, said yesterday that the trade imbalances between the US, Japan and West Germany remained large. He added that slow growth in Europe was also a matter of concern. Mr Baker said that he would propose further measures later this week to strengthen co-ordination of policies through the use of economic performance indicators for the major economies. Other Finance Ministers, however, remained highly sceptical about US attempts to translate the indicators into a more rigid framework for policy decisions. The Treasury Secretary's comments came as it emerged that confidential forecasts presented to the ministers by the International Monetary Fund suggest that the US current account deficit is likely to remain at unsustainable levels in the early 1990s. The projections indicate that, on the basis of current exchange rates and unchanged policies in the largest economies, the US deficit would remain at \$150bn in 1991. Japan would still have a surplus of \$70bn and West Germany one of \$30bn. That would imply a build-up in US net indebtedness to the rest of the world of \$1,600bn by 1991, the IMF warns. Page 2.

Banks give cool reception to Brazil's new debt plan

BY ALEXANDER NICOLL IN WASHINGTON

BRAZIL has met a cool reception from leading creditor banks to its request for \$10.4bn in new loans, lower interest rates and conversion of some of its \$68bn debt to banks into bonds. At banks prepared to dig in against setting important precedents for the handling of the five-year-old Third World debt crisis, their position was bolstered by a tough new stance adopted by Brazil's official creditors. The Paris Club grouping of sovereign creditors told Brazil that a January agreement to reschedule debt due to them in the first half of 1987 was now void because Brazil had not pursued economic policies which could be endorsed by the International Monetary Fund. The US, which in January forced through the first Paris Club agreement without a formal IMF agreement, held its ground in place, has joined other countries in insisting on an IMF accord before a further rescheduling is agreed. Although Brazilian officials have been in talks with the IMF and the World Bank, the precise nature of the agreements it is seeking from them remains unclear. Banks objections to the Brazilian plan centre on the country's attempt to isolate them from other creditors. The refinancing sought by Brazil from banks would not be linked either to its economic performance or to any contributions by official lenders to Brazil's financing requirements. "We cannot accept that," said Mr Jean-Marie Leveque, chairman of Credit Lyonnais, which is a member of the advisory committee. Banks object to the interest rate sought by Brazil, at no margin at all over London inter-bank offered rates. And they say that other parts of the plan are too vague either to understand or to pronounce upon. Brazil is painting its plan as a mixture of the conventional approach - new loans and debt rescheduling - and a new more radical treatment of the debt problem involving the conversion of loans into bonds. Brazilian officials have stressed, however, that the proposal is an outline intended for negotiation, and most bankers welcomed this approach as a softening of the confrontational stance Brazil has taken since February.

North Atlantic shipping accord faces EC competitions probe

BY KEVIN BROWN, TRANSPORT CORRESPONDENT, IN LONDON

THE European Commission is investigating claims that a pricing agreement between shipping companies on the North Atlantic is in breach of Community competition law. The investigation is the first under the Community's maritime regulations, which became law in July, effectively extending the competition provisions of the Treaty of Rome to ocean transport. The result of the investigation will clarify the extent to which the regulations permit pricing agreements, which are common in world shipping. It could also lead to a conflict between EC and US maritime law, since the North Atlantic agreement operates with the approval of the Federal Maritime Commission. The agreement, known as Euroroute, is between the North Atlantic Conference (Nac) and two independent carriers - Polish Ocean Lines and Evergreen Lines of Taiwan, the world's biggest container carrier. The members of Nac include Sea Land, a major US container carrier, Transocean Lines, a subsidiary of Peninsular and Oriental Steam Navigation; Dard Line, part of the Hong Kong based C.Y. Tung group; Hapag-Lloyd, the biggest West German shipping line; and Atlantic Container Lines (ACL), a consortium of six European shipping companies. The British Shippers' Council, which represents around 14,000 UK importers and exporters, has filed a formal complaint with the Commission, alleging that Nac, Evergreen and Pol control 90 per cent of traffic between northern Europe and the US. The Council claims that this market strength has been used to force around 10 smaller competitors out of the market, and to force up freight rates above their natural level. Mr Chris Welsh, the Council's shipping executive, said a 11-page dossier deposited with the Commission showed there was a clear correlation between market share and rate levels. Mr Jan van de Nadort, ACL's conference policy manager, said advice in both Brussels and New York indicated that the agreement was legal under both US and EC regulations. "It is a normal conference agreement of the sort that exists all over the world, where parties are allowed to sit round a table and discuss all sorts of issues. It is not an anti-competitive agreement," he said. Mr van de Nadort said shipping companies trading between the US and Europe could face major difficulties in reconciling different legal codes if the Commission ruled in favour of the British Shippers' Council. "Shipping people have to learn quickly now that the competitive articles of the Rome Treaty have become applicable to us. But based on the way that the regulations are written, we believe that this is a proper agreement which should be exempt," he said. The Commission has the power to declare the agreement null and void, and to impose fines or other sanctions on the companies involved.

Post-coup talks take Fiji nearer to declaring a republic

By Chris Stowell in Suva

Fiji moved a step closer to becoming a republic yesterday following a critical meeting between Colonel Sitiveni Rabuka, the South Pacific Island state's military ruler, and Ratu Sir Penaia Ganiela, the Governor-General. The republic could be declared as soon as October 10, the anniversary of independence from Britain in 1970. At the meeting, the first since Col Rabuka reasserted control of the country's government on Friday by staging the second coup this year, Col Rabuka, asked the Governor-General, "to let us run things as we see fit." Col Rabuka said afterwards he felt Fiji had no other path open except to declare a republic. Such a course would automatically take Fiji out of the Commonwealth and it would have to reapply for readmission. The crisis will be a major topic at the forthcoming Commonwealth heads of government conference at Vancouver to which Fiji seems certain not to be invited. Yesterday's meeting coincided with a decision by the country's supreme court judges to join the Governor-General in opposing the imposition of a state of emergency. But last night they appeared powerless to halt a move which would entail a break with the Commonwealth, incalculable economic damage and increased racial tensions. Col Rabuka indicated that he would like to see the Governor-General become president of a new republic. But Ratu Ganiela, who has been consulting friends during the weekend and has been in touch with the Queen, seems unlikely to accept such a role. He had been planning to resign in an interim government today with portfolios divided between the two main political parties. In a tough declaration of support, 11 senior judges sent a letter to the Governor-General saying: "We are resolved not to render service as judges to any regime or organisation, by whatever name it may describe itself, which opposes Your Excellency's lawful authority or attempts unlawfully to change the constitution." The judges also expressed "profound concern for, and condemnation of, the unlawful detention by the security forces of a number of citizens who include two of our brother judges and a magistrate which, in the least, makes a mockery of the rule of law." Others detained include Dr Timoci Bavadra, the Prime Minister. Continued on Page 28

Saddam must go to end Gulf war, says Iran

BY ANDREW GOWERS AND RICHARD JOHNS

PRESIDENT Saddam Hussein of Iraq must be removed from power as a condition for ending the Gulf conflict, Mr Ali Akbar Hashemi Rafsanjani, the Speaker of Iran's parliament, reaffirmed at the weekend. His statement, which came as Iraq intensified attacks on Iranian shipping targets in the Gulf, has cast gloom over resumed efforts at a ceasefire in the conflict. It may also resurrect the immediate prospect of a global arms embargo against Iran. Iran has insisted since 1982 on the overthrow of President Hussein as a precondition for ending the Gulf War. However, in the last two weeks it had appeared to have been playing down this issue amid UN peace efforts. "The Islamic Republic is firm in its resolve not to halt its holy war until the Iraqi people are delivered from Saddam," Mr Rafsanjani told a meeting in Tehran. At the weekend, Baghdad vowed once again that it would "punish" Iran until it accepted UN Security Council resolution 598, which calls for a ceasefire and a withdrawal to pre-war borders. Mr Rafsanjani's remarks are likely only to complicate the delicate balancing act facing Mr Javier Perez de Cuellar, the UN Secretary-General, and Security Council members as they explore ways of structuring a possible impartial enquiry on the origins of the conflict. This would have to fit in with Iran's demand that Iraq be named as the original aggressor, as a precondition to a ceasefire, withdrawal to the same time alienating Iraq. If the ousting of Mr Hussein emerges as an essential condition, the whole diplomatic effort could be rendered futile. Apart from Iraq's objections, the five permanent members of the Security Council would find the demand unacceptable. An intensive series of meetings in New York last week during the UN General Assembly ended with an agreement among the five permanent council members - the US, Soviet Union, France, Britain and China - to "further steps to ensure compliance" with UN resolution 598. Discussions will focus this week on an Iranian proposal for a two-part enquiry into the beginnings of the conflict which it blames Iraq for starting. The first part would be brief and general, while the second would be more protracted and discuss such issues as reparations. In the first part of the inquiry Iran has said it would observe a de facto ceasefire, turning this into a formal one and a withdrawal to pre-war boundaries with the publication of the first phase's conclusions. However, there remain considerable problems. Although Iran has promised to accept an enquiry's conclusions it says it assumes about the proposed tribunal would blame Iraq. UN member states are worried that unless there is a formal ceasefire and withdrawal before the enquiry does its work, there would be nothing to prevent Iraq from resuming the war with fresh vigour if it is not satisfied with the verdict.

Montedison plans \$785m rights issue

BY ALAN FRIEDMAN IN MILAN

MONTEDISON, the Italian chemicals, pharmaceuticals and financial services group, plans to raise L1,028bn (\$785m) through a rights issue in Italy and the US. The issue - the largest such fund raising operation by an Italian company this year - will provide part of the nearly \$1.5bn Montedison needs to pay for a 38.5 per cent stake in Rimont, the polypropylene joint venture launched in 1983 with Hercules, the US chemicals group. One-third of the rights issue, which was approved by the Montedison board on Saturday, will be placed in Wall Street. As well as going towards the purchase of the Rimont stake, the proceeds will help to reduce Montedison's debt-equity ratio, which has jumped considerably in the past month as the group has committed a total of \$2bn to acquisitions. Montedison's net consolidated debt burden now stands at L7,800bn, or 1.3 times the group's equity base. After the rights issue the debt-equity ratio will come down to 0.9 times. Continued on Page 28. Eurocredit, page 23.

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OVERSEAS NEWS

Philippine politicians attack deal on debt

BY RICHARD GOURLAY IN MANILA

THE PHILIPPINE senate indignantly debated last week the country's \$28.3bn foreign debt and how payments of interest and principal eat up 36 per cent of the budget, much of which could be used to finance desperately needed economic growth.

Bankers and economists fear the issue has become so politically sensitive that the rescheduling agreed in July, to cover \$13.2bn of debt, could be scuttled. Since President Corason Aquino assailed the creditor banks on July 27 for "taking advantage" of the country's political difficulties (such as attempted coups) to force a rescheduling, four bills have been tabled in Congress.

One likely to reach the floor of the Senate comes from the Economic Affairs Committee. It would limit the foreign exchange allocated to debt service to the equivalent of 15 per cent of export earnings. At present, it accounts annually for 26 per cent of foreign exchange earnings and 42 per cent of export earnings.

Other proposed Senate measures include a call for a three-year moratorium on all



Corason Aquino

principal payments (including those on official development assistance loans), selective repudiation of "fraudulent" loans, and a review of the entire debt agreement by Congress because the House of Representatives has the constitutional function of the allocation of funds.

Thirty of the 483 creditor

PHILIPPINE Government troops clashed with communist rebels yesterday about 40 miles north of Manila, AP reports from the capital. Officials warned that residents there could suffer electricity shortages after guerrilla raids on power stations.

Sources in the Philippines Constabulary, the military's internal security force, said three helicopter gunships and a company of Philippine marines had been sent to help government infantry in action against guerrillas of the communist New People's Army in Bulacan province, 40 miles north of the capital. A constabulary officer,

speaking on condition he not be identified, said at least one soldier had been killed and several wounded. He had no reports of rebel losses.

The fighting followed renewed clashes last week in the five-province Bicol region in the south-east of Luzon island, after attacks on bridges and rail lines.

A small explosion was reported yesterday at the headquarters of the Constabulary. Sgt Bert Barawes said the blast in an outdoor rubbish container caused minor damage but no injuries. The cause of the explosion was unknown, he added.

banks have still not signed the July agreement, which would stretch principal payments over 17 years, with a seven-year grace period, and lower the interest spread over Libor to 4 per cent. The rescheduling agreement must be signed by 97 per cent of the banks by November 15. The transaction that was most likely to derail the July agree-

ment has been left ambiguous by a Senate vote. It concerns a \$66m loan to a private fertilizer company, Planters Products, which Mrs Aquino agreed in July that the government would redeem so as to honour an undertaking made by the previous government.

Farly in response to the President's anger, the Senate

voted on Friday to scrap the executive order. This would be enough to scuttle the rescheduling because Barclays Bank, leading a consortium of creditor banks, refused to sign the July agreement until the controversy over Planters Products had been settled.

However, the Senate committee accepted that the government should give Planters Products enough cash to ensure that its commitment can be met. The required legislation will probably take until after the November 15 deadline for the rescheduling and it is too soon to say whether the alternative arrangement would be acceptable to the banks.

The tone of Senate debate last week shows that a warning sent by the then finance secretary, Mr Jaime Ongpin, on September 7, went unheeded. In his letter to the Senate, he said that any unjustified unilateral action against the creditor banks would send the country into default.

Most senators ignored these arguments and only one defended them.

Iraq attacks confirmed by salvage companies

By Our Middle East Staff

IRAQI claims to have struck three tankers off Kharg Island, Iran's main export terminal at the weekend, were confirmed yesterday by salvage companies in the Gulf.

The attacks raised tension just as diplomatic efforts were being resumed at the UN in New York to persuade Iran to accept the call for a ceasefire embodied in Security Council resolution 598. Iraq's air strikes also coincided with the arrival in Tehran of 26 Iranians and the bodies of three others who had been aboard the mine-laying vessel attacked by US helicopters on Monday.

The three vessels hit by missiles were all engaged on the shuttle service from Kharg Island to Larak Island near the Strait of Hormuz.

One of the three damaged tankers, the 255,668 deadweight ton Cyprus-registered Coral Cape, was hit twice by Exocet radar-seeking missiles late on Saturday and again yesterday while it was being towed to the port of Bashehr.

The other vessels confirmed as hit were the Liberian-registered Merin and the Siwan which flies the Iranian flag, according to shipping executives in the Gulf.

Raq yesterday warned Iran that it faced "all-out war" if it did not comply with the cease-fire resolution which it has neither accepted nor rejected. Al Thawra, the newspaper of the ruling Arab Baath Socialist Party, in the same editorial comment also renewed Iraq's call for the Security Council to enforce its resolution of July 20 with sanctions against Iran.

Mr Tariq Aziz, Iraq's Foreign Minister, has rejected the suggestion that a halt to the fighting in the seven-year-old conflict could be coupled with the establishment of a commission to determine which of the belligerents started the war.

In an interview with the newspaper Al Itihad of the United Arab Emirates he said that resolution 598 would have to be implemented in a clear sequence. First there should be a ceasefire, then a withdrawal of troops to international borders and finally a commission to determine which country was the aggressor.

Gatt urged to keep closer watch on trade and economies

BY PETER MONTAGNON, WORLD TRADE EDITOR

THE GENERAL Agreement on Tariffs and Trade should adopt active surveillance of trade and economic policy, if the entity is to cope with the twin problems of payments imbalances and rapid technological change, Ms Sylvia Ostry, a former chief economist of the Organisation for Economic Co-operation and Development, said in Washington.

"The need for institutional change in policy-making, both at home and internationally, is perhaps nowhere so acute as in trade policy," she said. She is now Canada's chief international trade negotiator.

Without such change, a world trading system which no government planned or desired might emerge, she told an audience of bankers and officials in the annual Per Jacobsson Lecture at the IMF annual meeting here.

The unique combination of major imbalances in the world economy and the onset of a new technological revolution had created a new climate, embracing both vulnerability and opportunity, she said.

The information revolution had brought an increasing

trend towards international integration of production, services and markets, which in turn was likely to provoke further resistance to the international division of labour.

The Gatt Round could not preserve the world trading system on its own. Indeed, the abuse of trade policy could worsen payments imbalances and heighten disorder in exchange markets, she said.

Gatt should institute an effective, policy-based surveillance mechanism, involving enhanced analytic capacity in its secretariat, a designated forum at ministerial as well as official level, a link with its disputes settlement procedure and improved transparency of domestic policy-making procedures in member countries.

The purpose would be to exert peer group pressure at senior official and ministerial level for policy adjustment and implementation.

This would highlight the impact of trade-related policies on the country's domestic performance, on other countries' trade opportunities, and on the system as a whole, she said.

Kim kidnapping in 1973 becomes political issue

BY MAGGIE FORD IN SEOUL

THE 1973 kidnapping of Mr Kim Dae Jung, the leading South Korean opposition politician, by South Korean intelligence agents while he was in Tokyo has become a political and diplomatic issue as the country moves toward democracy.

Journalists at two magazines are on strike in protest at a government ban on this month's issues which contain an interview with the head of the central intelligence agency at the time. Press reports suggest that the interview contains an admission that the Government was behind the kidnapping.

Both Seoul and Tokyo said at the time that the abduction was a freelance effort. A number of Japanese politicians have said that the interview suggests there was a clear violation of Japanese sovereignty and the

matter is to be raised in the Diet.

Mr Kim was seized at his hotel by the agents, blindfolded and tied up and forced on to a boat and taken to Seoul. He says that he feared being thrown overboard, but he was later released. Mr Kim, who almost beat former President Park in the 1971 election, was living abroad at the time, following the introduction of a new repressive constitution in 1972.

At a rally on Saturday in the industrial city of Incheon, Mr Kim told about 50,000 supporters that he wanted the Japanese and South Korean governments to reveal the truth about the kidnapping and to apologise to him. He was not asking for those responsible to be punished, he said, and he did not want to disrupt relations with Japan.

Israeli deal ends public sector strike

ISRAEL'S largest labour federation and the Finance Ministry signed a wage agreement yesterday ending a strike by 150,000 public sector workers, Reuter reports from Tel Aviv.

Officials of the Histadrut Trade Federation and the Treasury agreed to a \$50 monthly increase beginning in October, according to Treasury spokesman Mr Yitzhak Feinberg, Reuter reports from Tel Aviv.

The workers went on strike for three days last week after negotiations became deadlocked.

The agreement puts off a reduction in the working week until after a new two-year wage agreement is negotiated next spring.

The week ultimately will be cut from six days to five, Mr Feinberg said.

Only two of the 15 Histadrut unions immediately accepted the agreement, but this was not expected to invalidate it.

Kuwait targets illegal foreigners

Fear of Iranian reprisals has led to strict security measures, reports Andrew Whitley

A NEW CRACKDOWN is under way on the tens of thousands of foreigners living illegally in Kuwait. It is one of the steps being taken to tighten security, following the recent spate of sabotage attacks ascribed to Muslim fundamentalists. It is also part of a general drift in Kuwait towards greater central control, accentuated since last year's closure of the National Assembly.

The Kuwaiti Government reckons that 1.15m people out of an estimated population of 1.87m—60 per cent of the total—are non-Kuwaitis. Despite repeated efforts to increase the number of native sons and stem the foreign inflow it is a percentage which continues to climb.

Those responsible for a series of mysterious fires and this year's bombings of oil installations are believed to be mostly Kuwaiti citizens but the people arrested have been members of the Shia Muslim minority, of Iranian extraction.

The authorities last week promulgated a series of measures to identify, and flush out, other Shia Muslims from Iraq, Iran or Lebanon who might

make common cause with Kuwait's homegrown dissidents. Fines have been increased for those in violation of residence and work sponsorship regulations and a three-month amnesty has been offered for those who have gone to ground, allowing them to leave the country with no questions asked. Billboards now show slogans such as "Civil card is essential for expatriates."

Announcing the new package the head of the Interior Ministry's immigration department, Khalid Al Munayes, said that those expatriates whose papers were not in order after the amnesty period faced stiff punishment. Every day dozens of over-stayers are bundled unceremoniously out of the country, but now they face fines and jail terms as well.

Officially, the response to the amnesty is said to have been good, but not even Mr Munayes knows the full dimensions of the problem. Despite regular mass deportations over the years, the number of foreigners is probably in excess of 100,000.

What particularly alarms the authorities, according to knowledgeable Kuwaitis, is the unknown number of people born in neighbouring states who have been passing themselves off as native Kuwaitis entitled to all the privileges and benefits which go with that status. For years they have got away without having to produce proper identity documents, trading on loud protestations that they were insiders.

Now successful Palestinian businessmen who have lived here for a quarter of a century, bringing up their families as Kuwaitis, are suddenly finding themselves unwelcome; many are stateless and have nowhere else to go. Pakistani civil servants, retiring after long years' service, are being handed their passports and told: "Thank you very much."

There are other nationalities; some 14,000 Filipinos alone are

now working in hotels and shops and as domestics. But these are a different breed; short-term sojourners saving hard to send money home, whose stay in the country is closely regulated.

One surprise from Kuwait's 1985 census was the size of the Asian population, which at 366,000 has grown faster than the relatively stagnant non-Kuwaiti population of Arab origin, which numbers 643,000. Palestinians, between 300,000 and 400,000 of whom live in Kuwait, still form the largest and most important national group.

A handful of foreigners every year manage to pole-vault over the high bar put in the way of those seeking Kuwaiti citizenship. Muslim faith and 30 years' uninterrupted residence are two of the basic requirements, and the bar is being notched up all the time.

For the remaining 1m, all they can do is to keep their heads down, stay out of trouble, and hope that the economic goldrush which brought them to this particular patch of desert is reactivated soon.

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IMF AND WORLD BANK REPORTS

Debt initiative shows no grounds for satisfaction, Stewart Fleming reports

Fund warns of medium-term US deficit crunch

BY PHILIP STEPHENS IN WASHINGTON

THE International Monetary Fund yesterday warned that there are severe constraints on the ability of Central Banks to maintain stable exchange rates through intervention in currency markets or co-ordinated shifts in monetary policies.

In its latest World Economic Outlook, the Fund says that short-term measures aimed at influencing exchange rates are justified if markets are disorderly, or when movements are considered too rapid. It adds, however, that in other circumstances efforts to influence rates must be ineffective or even counter-productive.

The Outlook paints a slightly more optimistic view of prospects for the world economy than the Fund's last set of forecasts in April. It predicts a modest acceleration in economic growth and says there are signs of improvement in the massive trade imbalances between the US, Japan and West Germany.

It remains sceptical, however, that the present combination of policies and exchange rates in the largest economies will be enough to reduce the imbalances to sustainable levels. Over the medium term, exchange rates respond to fundamental factors such as relative inflation rates, fiscal position, and growth rates, the Outlook says.

The use of monetary policy or interest rates to sustain stability, "has definite drawbacks as a longer term strategy."

Since February's Louvre Accord, the major industrial nations have relied heavily on widening interest rate differentials between the US and the rest of the world and on massive intervention to defend the dollar.

The IMF says, however, that interest rate policy should be directed first and foremost at containing inflationary expectations.

Evidence suggests that "sterilised intervention" — when central banks neutralise the impact on the money supply and on interest rates or currency sales — has only a "transitory effect on exchange rates".

If intervention is "unsterilised", its effect is likely to be more durable, but at the risk of undermining the confidence of



WASHINGTON 1987

many, and the reverse occurring in the US. Inflation is forecast to remain under control though edging up to 3.4 per cent in 1988 from 3 per cent this year.

For the non oil producing developing countries, overall the Fund expects a growth rate averaging 3 per cent, but it says that the poorest countries of Sub-Saharan Africa can expect an increase in output only 2 per cent. That would represent the decline in per capita income for the African nations.

The outstanding debt burden of developing countries, which rose to \$1,100bn at the end of 1986, is projected to rise by an additional \$97bn in 1987 and \$37bn in 1988.

The Fund's concern about the risks facing the world economy centre on its medium term assessment which, based on current policies and exchange rates, is that the US current account deficit and the parallel surpluses in Japan and West Germany will remain at unsustainable level into the 1990s.

A confidential paper prepared for governments as a background to the Outlook describes a central case for base line scenario. This shows the US current account deficit remaining at \$150bn in 1991, with the Japanese and West German surpluses at \$70bn and \$30bn, respectively.

Deficits of that size would imply a massive build up in the ratio of US net indebtedness to output, from less than 10 per cent now, to 15 per cent in 1991 and 22 per cent in 1995. That latter figure would represent a net debtor position for the US amounting to \$1,600bn.

The IMF believes that such a rise in the US debt position would not be accepted by financial markets. Unless governments adopted appropriate measures to curb the imbalances, the markets could force a 15-20 per cent devaluation of the dollar. That in turn would have damaging implications for growth rates, for inflation, and for interest rates.

WORK HARD, study and keep out of politics, is the advice offered by Capt James A. Baker in a newspaper article, a copy of which hangs on the wall in the reception room outside US Treasury Secretary James Baker's office.

By studiously avoiding the advice of his grandfather, Mr Baker is recognised today as the most influential politician to occupy the Secretary's office at the Treasury in a generation.

In the past two years, with the advice and usually the support of recent retired Federal Reserve Board chairman Paul Volcker, he has helped to transform not only the thrust of the Reagan Administration's international economic policy but also the framework within the industrial countries conduct their economic relations.

But today, as Mr Baker takes part in what will be his last annual meetings of the World Bank and the International Monetary Fund as President Reagan's Treasury Secretary, the verdict on the initiatives he launched two years ago to try to correct the huge US trade deficit and ease the Third World debt problem, remains "not proven."

There is, as a meeting of top policymakers and bankers assembled by the Bretton Woods Committee in Washington concluded on Friday, no grounds for satisfaction concerning the debt initiative. Everybody,

bankers, debtors and creditors, know that it is failing. Official statements to the contrary reflect a mixture of semantics (the "Baker Plan" is so malleable a concept that it can bear almost infinite redefinition without "failing") and an inability to agree on what could replace it.

So far as the international economic policy imbalances among the industrial (and newly industrialising) countries are concerned, the situation is only a little better.

The decline in the dollar since 1985 has been more orderly than most economists imagined possible helping to sustain an upswing which has eased the world's economic problems.

A tenuous stability has set in on the exchange markets since the Louvre accord in February, the US trade deficit has probably stabilised in nominal terms at around \$150bn-160bn and it is improving in volume terms. That in turn is helping to sustain US growth.

But the economic policy actions by the industrial countries needed to improve the prospects for the correction of fiscal and current account imbalances are still awaited.

Instead there are signs that the policy priorities of the industrial countries are diverging. In the US, with next year's Presidential election looming, the highest priority for the

Verdict on Baker's plans remains 'not proven'



Signs exist that the policy priorities of the industrial countries are diverging. The US Administration aims to sustain growth. West Germany and Japan fear it is asking from them growth which risks higher inflation.

warning that the new "budget fix" will not bear close scrutiny and, like its predecessor, the initial Gramm-Rudman-Hollings budget reform law, can too easily be ignored or reversed by Congress.

In addition, it puts off until further into the future the tough choices needed to reduce the deficit sharply. So while it strengthens Mr Baker's hand in the debate with his peers about whose economic policies need to be adjusted in the interests of international economic stability, it is far from clear that it will trigger any fundamental shifts in the judgment by its trading partners that the top priority is a more vigorous US attack on the deficit.

Mr Baker and his admirers, many of whom have held high office in Democratic administrations, can argue with justification that the world economy would probably be in much worse shape without the initiatives the Treasury Secretary launched two years ago.

Faced then with an overvalued dollar, a burgeoning trade deficit and the threat that the US Congress was about to approve protectionist trade legislation, Mr Baker abandoned the indifference to mushrooming international fiscal and trade imbalances which had characterised US international economic diplomacy under his predecessor Mr Donald Regan.

He set in train the procedures which have led in the past two years to an orderly decline in the dollar's value to levels which now have economists divided on the question of whether the US currency has declined far enough to bring about a reduction of the US trade deficit.

Of longer term significance perhaps is the fact that the major industrial countries have also abandoned their faith in freely floating exchange rates adopted in the early 1970s. Instead they are experimenting with attempts to stabilise their exchange rates, while still permitting sizable fluctuations and to sustain this stability through better co-ordination of economic policies.

At the Seoul meetings Mr Baker also launched the so called "Baker Plan" which the Treasury and the Federal Reserve had designed for trying to tackle the Third World debt

crisis by emphasising the need for economic growth in developing countries and the provision of funds by official lenders such as the World Bank and the IMF and commercial banks.

Today, however, Mr Baker will not be any more anxious than his President to entertain bold new initiatives to reduce the budget deficit or tackle the debt problem unless forced to do so. He must keep both eyes fixed on his party's electoral platform.

In just over a year's time the Republican Party, its Presidential and Congressional candidates, will once again be facing the voters.

Sometime before then Mr Baker will have left the Treasury to involve himself in those elections. Some who are close to him suggest that he will quit in the spring of next year—April or May. Others speculate that if the campaign of his friend Vice-President George Bush runs into difficulties, Mr Baker could come under pressure to leave earlier.

Meanwhile, his priority will be to ensure that the US economy is not struck by turmoil in the financial markets or a recession in the next 14 months. That would hand the Democrats the campaign issue they badly need and Mr Baker has practised politics too long not to know what the likely consequences of that would be.

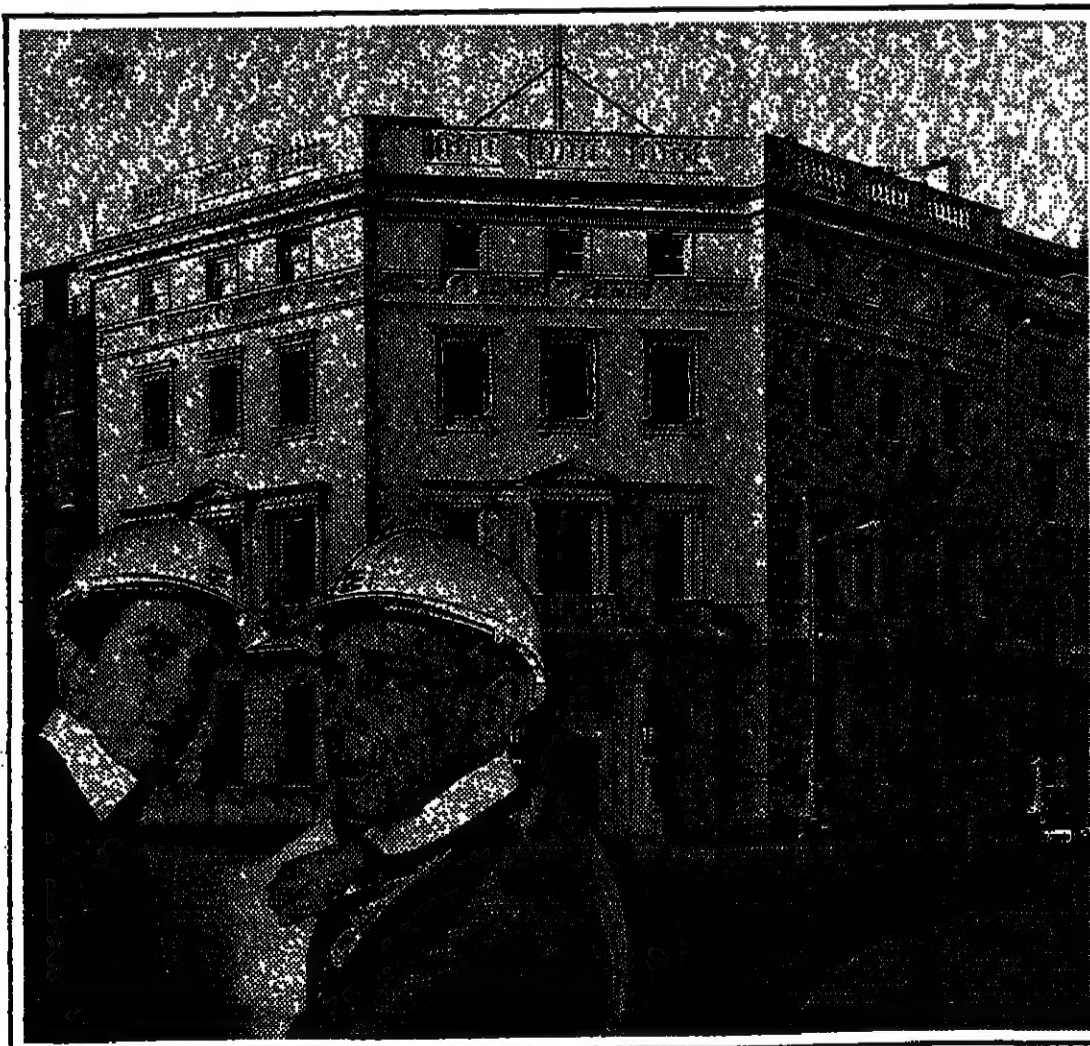
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IMF AND WORLD BANK REPORTS

Reagan backs new budget reform law

BY STEWART FLEMING, US EDITOR, IN WASHINGTON

PRESIDENT RONALD REAGAN announced on Saturday that he intends to sign the new budget reform law approved last week by Congress in an effort to pressure him to negotiate a compromise accord aimed at reducing the Federal budget deficit.

But even before Mr Reagan has put pen to paper some fiscal experts in Washington are saying that the new law may do less to reduce the deficit than it appears to promise.

In the view of Mr John Makin, an economist and budget expert at the American Enterprise Institute, "Washington think tank, the budget fix approved by Congress last week, which Mr Reagan has decided not to veto, in fact ensures that further major reductions in the deficit will have to wait until after next year's Presidential elections."

Moreover, citing one provision of the legislation—the one that would allow Congress to modify automatic spending cuts—the legislation calls on the President to make if a budget accord is not

reached—Mr Makin says, "Congress has left itself an out here. That is why I did not expect the President to sign the bill."

In his regular radio address to the nation on Saturday, Mr Reagan said of the legislation, which was attached to a bill authorising an increase in the Federal debt ceiling: "I have no choice but to sign this bill to guarantee the United States Government's credit." But the President, heralding a confrontation on budget priorities, vowed to resist Congressional calls for a tax increase as part of the budget package and threatened to veto domestic spending bills.

It calls for a maximum of \$239bn in automatic budget cuts for the 1988 fiscal year, which begins in October, if Congress and the White House cannot agree on deficit reduction steps. Half the automatic cuts would be in the military budget.

The goal would be to reduce the deficit to \$144bn in the coming fiscal year from the \$150-\$160bn expected for 1987. The deficit hit a record \$220bn in 1986 and has fallen much more sharply than anticipated in the past year.

US banks are on a particularly fine knife edge over rescheduling, Alex Nicoll writes
Brazil debt plan sets tough challenge

BRAZIL'S proposal for dealing with its \$88bn medium and long term debt to banks, though vague and avowedly open for negotiation, presents banks with one of their toughest challenges since the debt crisis began in 1982.

Put badly, a country which has paid them no interest for seven months is asking them for the biggest new loan in the history of the debt crisis.

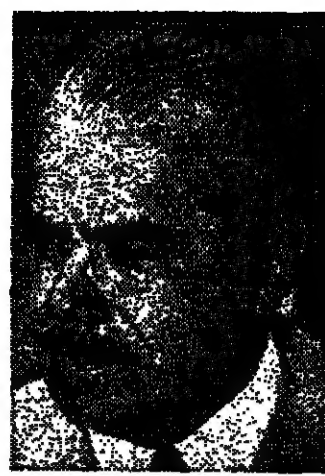
It also wants a large rescheduling, a sharp reduction in interest rates on all the debt and the introduction of bonds which would force banks accepting them to take write offs.

In responding, banks have to weigh their desire to negotiate towards a resumption of interest payments and an orderly long term solution against their fear of setting precedents that many other debtors would immediately seek to match.

US banks are on a particularly fine knife edge. They want to be seen to be in negotiation with Brazil because US regulators could declare Brazilian loans "value-impaired" late next month, forcing new bank losses. Banks say they are treating the deadline seriously.

But equally they do not wish to give the impression to regulators that they are likely to accept Brazilian proposals which would effectively devalue their loan portfolios.

Banks are not hiding their distaste for many aspects of



President Sarney

Brazil's approach. Not least among them is its public negotiating style. Reporters who stalked out Friday's meeting in Washington received exactly the same document as had been handed out to the banks.

What irks the banks most, however, is the attempt to de-link the banks' proposed financing package from any other arrangements President Jose Sarney's Government might make with other creditors.

"Everyone feels strongly that it is too early to veer away from orthodoxy to that degree," said one banker on the advisory committee. Since 1982, banks have

"Put boldly, a country which has paid no interest for seven months is asking for the biggest new loan in the history of the debt crisis. It also wants a rescheduling and a sharp cut in interest rates on all the debt"

made new loans which went to help debtors finance interest payments to them. Brazil is exposing this uncomfortably by terming the requested \$10.4bn new loan as "interest financing."

Banks, however, feel they should lend new money if they can be sure it will be well spent—that it will not be squandered through poor economic management not used to fund payments to other creditors. In both these regards, most bankers view an agreement with the IMF as crucial.

It would ensure the introduction and monitoring of an economic programme, and it would also address nearly \$2bn which Brazil is due to pay the IMF this year and next. Banks would not lend money which could be used to finance these payments.

One member of the advisory committee commented: "I'm

not sure that saying 'finance my interest and don't bug me on anything else' is the best way to make Brazil bankable."

Brazil's proposal contains other elements which, if accepted, would provoke calls from many other debtors for similar concessions. These include the elimination of any spread over money market rates on all the debt, and unspecified mechanisms for setting a cap on interest rates and for compensating Brazil for any substantial worsening in its terms of trade.

While bankers see the interest rate demand as an opening negotiating gambit, they regard some other elements as either unacceptable or too vaguely worded to understand.

Brazil argues that conventional debt strategies have failed. Its new approach, it says, is a blend of the conventional strategy with a "long term approach to the debt problems based on a restructuring linked to the true payment capacity of the country."

The conventional part of the plan comprises a rescheduling of maturities due from 1986 to 1989, and the new loan. This could be made by capitalising interest—a new element. It would comprise \$4.3bn or 100 per cent of 1987 interest due since February, and \$6.1bn to cover 60 per cent of interest due 1988 and 1989.

The part of the plan termed

Bankers are at least encouraged that they are talking to Brazil.

"Everything's negotiable, that's a lot more than we've heard for a long time," one advisory committee member said.

"alternative" by Brazil is a voluntary version of its already well known proposal for conversion of debt into long term, low interest bonds.

The outline is similar to exit bonds included in a package for Argentina earlier this year, but with provisions for increasing the yield or accelerating repayment if Brazil's economy performs well. To add incentive, the bonds would be the main vehicle for converting debt into equity in Brazilian companies.

Even if they do not like the Brazilian plan, bankers are at least encouraged that they are talking to Brazil. "Everything's negotiable—that's a hell of a lot more than we've heard from them for a long time," said one advisory committee member. Even Friday's meeting between the banks and Brazil, it will be clearer just how much further the negotiations can proceed at this stage.

Economic growth 'likely to slow in UK'

By Philip Stephens

BRITAIN'S economic growth rate is likely to slow to 2.3 per cent in 1988 after a 3.4 per cent increase in output this year, according to the latest International Monetary Fund forecasts.

The fund also predicts a steady deterioration in Britain's trade position but expects the current account of the balance of payments to show a smaller deficit in 1987, than the £5.5bn forecast by the Treasury in its March budget.

The IMF projections published yesterday in the World Economic Outlook point to a current account deficit of £2.5bn (£1.25bn) in 1987, followed by a short fall of £3.5bn (£2.2bn) in 1988.

A growth rate of 2.3 per cent next year would be below the average of 2.6 per cent expected for the industrial countries as a whole, but above the 2 per cent projected for European nations.

Britain's inflation rate, however, is forecast to remain higher than the 3.4 per cent anticipated for the industrial countries as a whole next year. The Fund predicts a rate of 4.2 per cent in 1987, rising to 4.5 per cent in 1988.

SOME SIGNS FOR OPTIMISM

G7's note of caution on reform and growth

THE FOLLOWING is the text of the economy issued on Saturday by the Group of Seven leading industrial non-communist nations—the US, Japan, West Germany, France, Britain, Italy and Canada:

The Finance Ministers and Central Bank governors of seven major industrial countries met today. The managing director of the IMF (Mr Michel Camdessus) also participated in the meeting. This continues the economic policy co-ordination process agreed by their Heads of State or Government at the 1986 Tokyo Summit and strengthened at the 1987 Venice Summit meetings. The Ministers and Governors are convinced that this process, including the use of economic indicators, provides an important and effective means of promoting a healthy and prosperous world economy and stable monetary system.

The Ministers and Governors reviewed together the events, policy developments and evolution of foreign exchange markets since the Louvre Agreement and the April 6-7 meeting in Washington. They were pleased with the exchange rate stability which has been achieved and which has benefited their policies and performance.

In the Louvre Agreement the Ministers and Governors set out the policies which they intended individually to pursue, and undertook to monitor them together and as necessary intensify or adapt them. They note that some important decisions have been taken in individual countries which were envisaged in the February statement, and that generally the evolution of policies has been along the lines intended.

Some important favourable results are beginning to be seen. The substantial reduction in fiscal 1987 in the United States federal budget deficit is a very positive step, as is the continued determination in existing protectionist pressures, and they particularly welcomed the announcement today by the President of the United States of his decision to sign legislation which will reinforce progress in reducing the budget deficit. The major programme of additional expenditures and income tax cuts in Japan is being rapidly implemented. In Germany the reduction

in income taxes from January 1988 will be greater than previously planned and the legislation for them has already been enacted. There have been reductions in external imbalances in real terms, although they remain high. Growth in domestic demand in surplus countries is picking up, but it is important that it improves further in some countries.

The Ministers and Governors note that the large trade surpluses of some newly industrialised countries continue to be an important factor contributing to external imbalances. They repeat their view expressed on earlier occasions that these economies should reflect their growing importance and responsibilities by reducing

trade barriers and pursuing policies that allow the currencies to reflect more fully underlying economic fundamentals.

The Ministers and Governors commit themselves to take further appropriate actions as necessary to achieve the agreed goals set forth in the Louvre Agreement. They will particularly intensify their efforts to liberalise markets, implement tax reforms and pursue other structural changes to strengthen the vitality of their economies, to foster a high rate of sustained non-inflationary growth and to reduce external imbalances. They reaffirmed their determination to fight protectionism and to promote an open world trading system.

The Ministers and Governors reaffirmed their intentions to carry forward their economic policy co-ordination efforts. During the coming year the developments of their economies will be monitored closely under the strengthened surveillance arrangements outlined in the Venice summit.

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—	Ass. Brit. Ind. CULS	203	—	10.0	4.3 —
800	Amstagg and Rhodes	35	—	4.2	11.7 8.0
8,448	BSE Design Group (USM)	102nd	—	2.1	2.0 16.3
118,705	Barton Group	182	+7	2.7	1.5 31.1
10,827	Bay Technologies	183	—	4.7	2.8 14.7
949	CCL Group Ordinary	271	+4	11.5	4.2 8.0
1,800	CCL Group 11pc Conv. Pref.	144	+2	15.7	10.9 —
21,259	Carborundum Ord.	188	—	6.4	3.2 14.6
714	Carborundum 7.5pc Pref.	102	—	10.7	10.5 —
2,982	George Blair	160nd	+15	3.7	4.4 —
3,859	Isis Group	120	—	—	—
3,858	Jackman Group	93	—	—	—
151,084	James Burrough	1,160	+7	3.4	3.7 10.3
4,898	James Burrough Spc Pref.	133nd	—	12.9	1.9 28.1
35,378	Multhouze NV (AmstSE)	605	—	—	— 20.0
18,100	Record Highway Ordinary	700ms	—	1.4	— 14.3
2,348	Record Highway 10pc Pref.	87ms	—	14.1	16.2 —
603	Robert Jenkins	84	—	—	— 2.8
5,820	Sprague	124ms	—	—	—
6,278	Torday and Carls	124ms	—	—	—
1,807	Trevian Holdings	62ms	+1	6.6	3.0 10.7
18,800	Unilever Holdings (SE)	83rd	—	2.6	3.0 17.1
68,537	Walter Alexander	252nd	+2	5.3	2.3 18.7
4,540	West Yanks Ind Hosp (USM)	149	—	5.5	3.7 18.8

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Economic growth likely to slow in UK

OPTIMISM of caution and growth

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FINANCIAL TIMES

Europe's Business Newspaper

London Frankfurt New York

EC states 'have failed to enforce sanctions'

By Quentin Peel in Brussels

A DOSSIER of statistics suggesting that EC member-states have failed to enforce their own trade sanctions against South Africa is to be presented to the Danish government, currently in the chair of the EC Council of Ministers.

The figures show that member-states like the UK and West Germany continued to import iron and steel products from South Africa, 10 months after they agreed to restrict them.

The steel ban agreed in September, 1986, affects only some 40 per cent of the total EC iron and steel imports from South Africa, including items such as pig iron, cast iron, steel plate, billets, slabs, bars and rods, ferro-alloys, for example, are excluded.

Statistics collected by two Dutch Socialist members of the European Parliament show that UK imports of the banned products still totalled Ecu 5.2m in the first seven months of 1987, compared with Ecu 10.4m in the same period of 1986. West Germany did cut back to Ecu 12.8m worth in the first seven months of this year compared with Ecu 24.5m in the same period of 1986.

British officials yesterday denied that there was any evidence of UK importers disregarding the ban, suggesting that the continuing imports must be coming in under long-term contracts signed before the trade sanctions were agreed.

Mr Alan Metten, one of the MEPs involved, rejected the suggestion on the grounds that the normal duration of such contracts was only six months. "The boycott is a joke," he said. "The governments are breaking their own agreement."

Indian troops fire into Tamil mob

INDIAN Army troops opened fire on a Tamil mob setting fire to a bus near Batticaloa in eastern Sri Lanka yesterday, injuring at least three people, police said. AP reports from Colombo.

The Rev Pius Ramanajah, a Roman Catholic priest in Batticaloa, said the mob was angered by the death of Thilegagan Ambalingam, a Tamil militia leader who died in Jaffna after a 12-day hunger strike.

Portugal and Angola seek closer links

By Peter Wise in Lisbon

MR JOSE Eduardo dos Santos, the first Angolan president to visit Portugal since independence 12 years ago, arrived in Lisbon yesterday with the aim of mending a potentially rich relationship thwarted by the legacy of five centuries of colonialism.

Portugal's dealings with Angola are the most strained of all its ties with the five former African colonies, which were pitched into independence in 1975 after young Portuguese army captains, weary of long colonial wars, toppled the rightist regime in Lisbon.

Troubled by the activities of Lisbon-based spokesmen for the Angolan rebel movement UNITA, by the resentment of Portuguese settlers who fled Angola, and by the hot-and-cold attitudes of successive Lisbon governments, the two countries have failed to dispel the tensions that remain a barrier to economic co-operation.

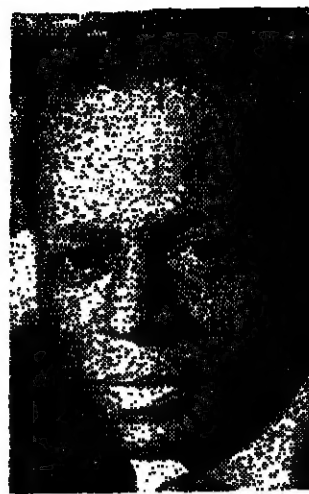
After losing important Angolan contracts to European competitors, Portugal now feels that the expansion of its own economy and the political stability ensured by the Social Democrats' solid parliamentary majority will at last enable the country to take full advantage of its African connections.

Mr dos Santos says the object of his visit is to make up for lost time in healing the wounds inflicted by history and to nurture a special relationship with the Portuguese, whose shared language and familiarity with the Angolan economy make them ideal development partners.

"We share a common frontier of history and culture," Mr Venancio de Moura, Angola's deputy foreign minister told reporters. "That is why there is potential for an especially close friendship, but also why we react so strongly to negative behavior" — an allusion to UNITA propaganda.

This emotional undercurrent is dominating the five-day state visit. Many share in the reconciliation, symbolized by the embraces of the two presidents. Others participate in the demonstrations against Angola's Marxist government and the presence in Angola of an estimated 37,000 Cuban soldiers.

Mr dos Santos is focusing



Mr Jose Eduardo dos Santos

much of his attention on a series of meetings with businessmen, particularly in the industrial north. He is expected to tell them of planned changes in Angola's foreign investment laws, offering improved incentives for export-oriented projects and better conditions for repatriating profits.

The president's visit to the Sines oil refinery complex on the southern Atlantic coast could prove crucial to proposals for Angola to lease oil storage and refinery facilities. Such a development could save the massive, underused complex from being the white elephant it has been since its construction in the early 1970s.

An extensive oil trade between Portugal, which imports 80 per cent of its energy, and Angola, whose oil exports account for 90 per cent of foreign earnings, seems logical but it will not be until later this year that the first shipment of Angolan oil will arrive in Portugal under a contract worth \$70m a year. Most of the payment will be made in the form of bank credits to enable Luanda to pay Portuguese companies working in Angola.

Talks are also expected in Lisbon on a rescheduling of the Portuguese share of Angola's \$4m foreign debt, that is being studied in its entirety by Portuguese specialists working for auditors Coppen and Lybrand International.

Sweden-Denmark tunnel plan in trouble

By Kevin Done in Stockholm

SWEDISH and Danish government plans to build a SKR3.3bn (\$1.45bn) road and rail link between the two countries have been dealt a blow by the party congress of Sweden's ruling Social Democrats, meeting in Stockholm this week.

The scheme, one of Europe's most ambitious communications projects, has run into stiff opposition from environmental activists among the Social Democrats, who want a single rail tunnel.

Rather than risk a damaging split only a year before the general election, the party leadership has been forced to back down and withdraw a motion backing the construction of a combined road and rail bridge from Malmo in southern Sweden to Copenhagen.

The scheme would have removed the final missing link in the transport infrastructure, planned for decades, to join Scandinavia to continental Europe.

In a compromise move, the issue of a permanent link across the Oresund, the busy straits separating Sweden from the Danish island of Zealand, is to be referred back to a comprehensive inquiry within the whole Swedish labour movement.

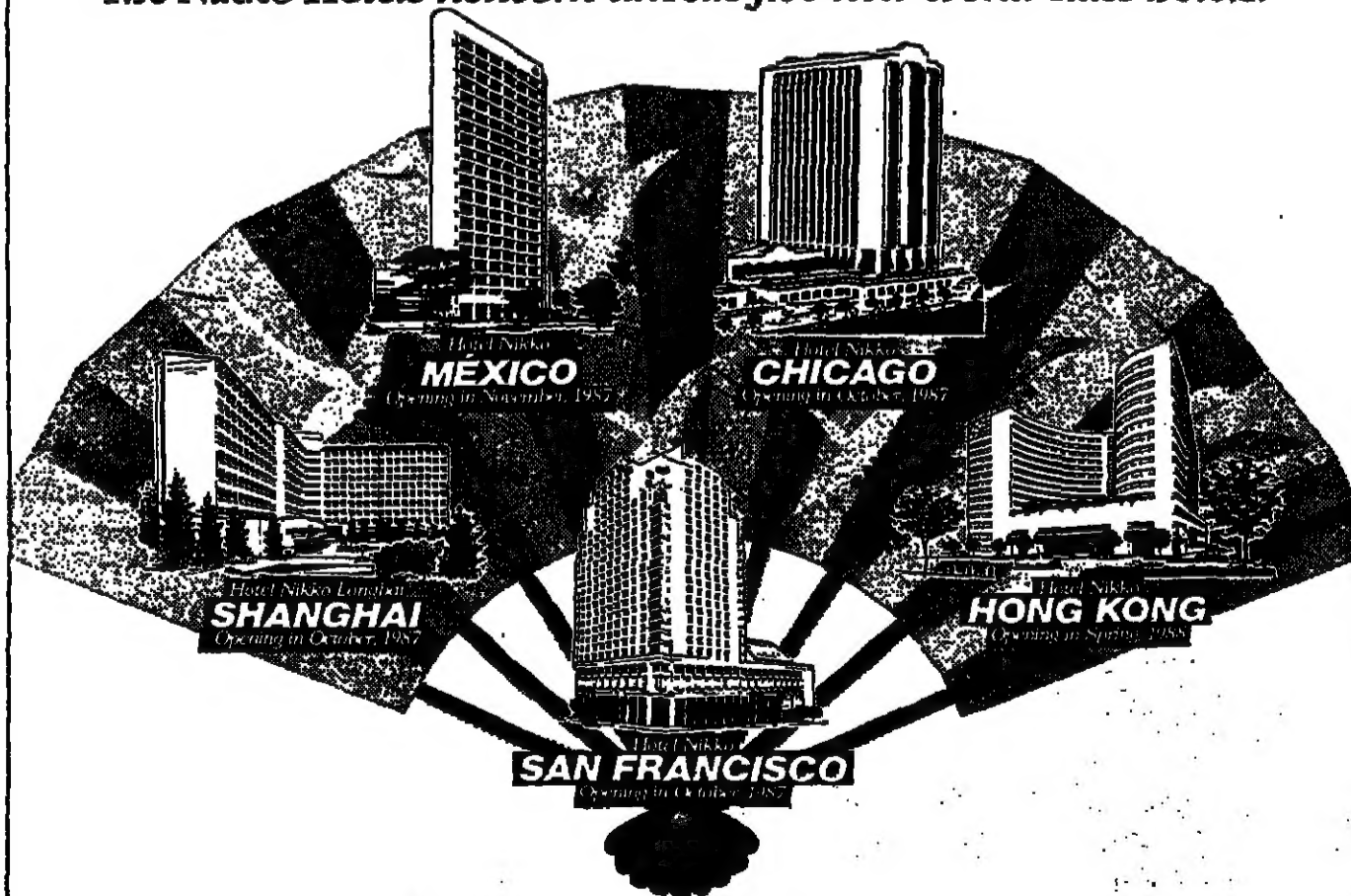
The inquiry is expected to delay a decision on the project well beyond the next election, due in September 1988. The Social Democrats have used this procedure previously when sensitive major issues — such as the development of nuclear weapons, membership of the European Community or the future of nuclear power — have threatened party unity.

Similar in magnitude to the Channel tunnel between the UK and France, the Oresund link has been under discussion for more than 100 years, but it has been bedevilled by political disagreements both domestically and between Stockholm and Copenhagen.

In August the scheme finally appeared to have received a green light, when a joint Swedish/Danish working party proposed the combined road and rail bridge solution, and the Transport Ministers of both countries expressed optimism that an agreement could now be reached.

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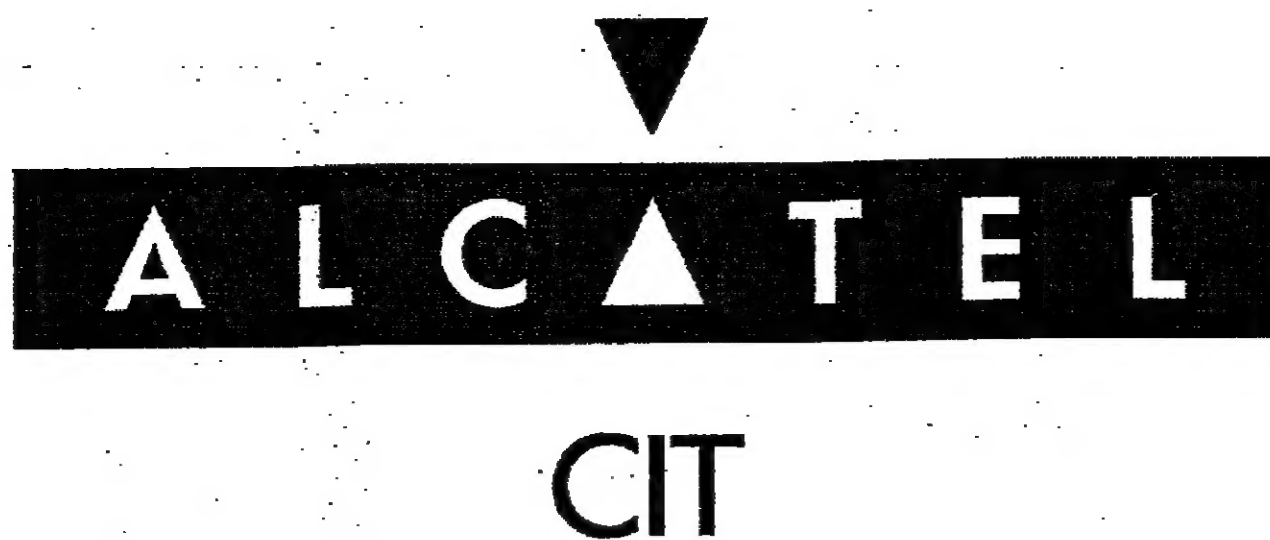
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UK NEWS

ELECTRONIC FINANCIAL SERVICES—
COMPETITION AND CO-OPERATION

London, October 19 and 20, 1987

The Financial Times fifth Electronic Financial Services conference will focus on competition and co-operation in financial institutions face in managing technology to secure competitive advantage.

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THE PROSPECTS FOR THE
ADR BUSINESS

London, November 11 and 12, 1987

The FT Conference Organisation and the National Association of Securities Dealers (NASD) are joining forces to hold a major European-American Forum on the ADR business in November. The subjects for discussion will include access to US capital markets, ADRs as a vehicle, regulation of the ADR business, European company experience, the approach through NASDAQ and the role of the Stock Exchange in London.

The speakers include Mr Joseph Hardiman, NASD, Mr James Davin, The First Boston Corporation, Mr Charles Symington, S G Warburg & Co Inc, Mr Graham Whitehead, Jaguar Cars Inc, and Mr John Naisbitt, author of "Megatrends".

Details of "The Prospects for the ADR Business" will be available shortly. There have been many requests for a conference on this subject and this meeting is expected to be a major feature of the FT autumn programme in London.

WORLD ELECTRICITY
CONFERENCE

London, November 16 and 17, 1987

A major addition to the FT energy conference programme is World Electricity to be held in London as the privatisation debate develops and many other major issues face the industry, those who direct it and those who finance it. Sir Philip Jones is to take the chair on the opening day and the speakers include: M. Pierre Delaport of Electricité de France, Mr Svend Erik Hoymand, the Danish Energy Minister, Dr Walter Fremuth, Chairman of the Austrian Electrical Corporation, Dr Axel Lippert, Managing Director of Bayer, Mr David Penn of Wisconsin Public Power, Mr Christopher Johnson, Chief Economic Adviser of Lloyds Bank, Mr William Varquaux of Electricité de France, and Dr I. C. Bupp of Cambridge Energy Research Associates.

All enquiries should be addressed to:
The Financial Times Conference Organisation, 2nd Floor, 156
Jermyn Street, London SW1Y 4UY. Tel: 01-3323 (24-hour
answering service). Telex: 27947 FT CONF G. Fax: 01-925 2125.

BOC forms joint
venture with
Chinese group

BY DAVID CHURCHILL

BOC, the British group of gas and health care companies, has secured an important foothold in mainland China with the formation of a joint venture chemicals company in Shanghai.

The deal, announced in London at the weekend took two years to negotiate and was won in the face of strong competition from US chemical companies.

BOC becomes the first foreign company to establish a major joint venture in the Chinese chemicals industry. The new company will operate China's first liquefied gas plant.

The venture has been concluded between BOC and Wusong Chemical Works, based in Shanghai, to form Shanghai BOC. BOC's initial investment is only £4.5m, although total assets in the new company are understood to be worth about £20m.

Extra funding has come from the Chinese authorities, especially the Shanghai Chemical Bureau.

Mr Richard Giordano, BOC's chairman, said at the weekend:

"We are delighted with this agreement. It is the first major joint venture between a chemical company serving mainland China and any foreign company, and will provide a very solid foundation for future growth not only of BOC's gases business, but also for markets for BOC health care products and our other specialised technologies."

Shanghai BOC will continue the existing industrial gas business of Wusong Chemical Works and immediately expand production facilities. It will do this by building new facilities for special gas production as well as installing a 110 tonnes a day gas liquefier to be built in the UK by BOC Cryoplants.

BOC will also provide the new venture with its expertise to improve production, distribution, marketing and further technological developments of new markets.

The deal still requires final approval from the Shanghai Municipal Government in November, although this is expected to be a formality.

Benlox
makes £2bn
bid for
Storehouse

BY LUCY KELLAWAY

BENLOX HOLDINGS, a small engineering and investment dealing group worth about £45m, yesterday launched a £2bn all share bid for Storehouse, the retailing group headed by Sir Terence Courran.

Benlox, 21.7 per cent owned by the Egyptian financier, Dr Ashwan Marwan, said yesterday that if successful, it would "demerge" the group into a number of specialist retail stores.

Sir Terence yesterday responded angrily to the approach which he said would be put to the Storehouse board at a meeting today. "The bid is opportunistic financial engineering at its worst. It is so disruptive of our business in general and for our employees in particular," he said.

The bid is being made by Ifinco, Earl, a small corporate finance company run by Mr Peter Earl, a director of Benlox, who last year launched unsuccessful "demerger" bids for Ertel, the business information group, and London and Northern, the construction and energy company.

The bid comes three days after Mounaigh, the property company, announced its withdrawal from a six week battle to acquire Storehouse, after its £1.5bn bid had been rejected by the board.

Benlox said yesterday Storehouse would be worth more to shareholders split up than as a whole. "The company has turned into a bit of a Frankenstein," it is too large and unwieldy. The companies are great businesses independently, but too large put together," Mr Earl said.

Mr Robert Maxwell, who supported Mr Earl last year in his bid for Ertel, announced last week that he had increased his stake in Storehouse to 2.9 per cent. Mr Earl said he had not consulted Mr Maxwell about the bid, but he hoped to get his support.

The terms of the deal are 11 Benlox shares for every two Storehouse shares, which at Friday's closing price values Storehouse shares at 501p, compared to 445p offered by Mounaigh. There is no cash alternative.

Amstrad to announce Spanish purchase

By David Thomas

AMSTRAD, the fast-growing consumer electronics company, is today likely to announce its largest acquisition yet by buying Indescomp, the Madrid-based distribution company which has helped it dominate the Spanish personal computer market in Spain.

The acquisition fits into Amstrad's strategy of building up its overseas operations, where it is increasingly looking for its fastest growth.

The company now claims more than half of the Spanish market for home computers and low-cost business personal computers. Amstrad says its audio equipment and video recorders, both of which it launched there within the past year, are also selling well.

Amstrad's sales in Spain in 1986-87 were £22.5m, 16.5 per cent of its turnover. Observers believe that its 1986-87 figures, due to be released tomorrow, will show its sales in Spain to have almost doubled.

Analysts are expecting pre-tax profits for 1986-87 of £135m-£140m, up from £75.5m last year.

The company would not comment on the acquisition in advance of the announcement, but Mr Alan Sugar, Amstrad's chairman, will be in Spain today to clinch the deal.

Indescomp's main shareholder is Mr José Luis Dominguez, 35. Mr Dominguez started selling Amstrad machines in Spain in 1984, and has made himself a millionaire by selling the company's products. He is expected to stay with the company in a senior position.

Nick Garnett looks at a small manufacturer's trade war

Tiny digger's big success

IF YOU want an example of an idea developed in the UK and exploited by the Japanese through fair means and foul some observers say, look no further than the mini-excavator.

These tiny machines, weighing between one and six tonnes, are easily the fastest growing part of the construction machinery market in the UK.

They and their larger excavator brothers have also been taking market share across the world from other types of machinery.

The Japanese now have a virtual stranglehold on production of the mini-excavator, but the concept was born in the UK, which has been put on the sidelines as a producer.

In 1981 just 238 mini machines were sold in the UK, but by last year sales had risen to 1,153. Smalley was a "walking" machine, pulled along by the front bucket.

In the UK last year Kubota took 50 per cent of the market, followed by Komatsu and Nissan, each with 12 per cent, ahead of Chieftain, another Japanese-made machine sold by equipment distributors Blackwood Hodge.

The Smalley company, though, lives on. In 1982 the company in construction equipment forced it into receivership, but it was resurrected as Smalley Excavators, run by Mr Richard Smalley and his wife, Ann.

tor concept and it began producing the machine in 1983. A row with the Austin car company - later subsumed into the Rover Group - prevented it from using the word "mini", but the Smalley 5, as the eight horse power machine was called, was a success.

In the middle 1960s, Smalley was selling 100 of these units a year in Japan. By 1967, however, the Japanese had decided to start making the mini-excavator themselves and imposed a 40 per cent import tariff on Smalley equipment to help them do it.

By 1970 the Japanese had their own mini excavators on the market, and they have never looked back. Characteristically, the Japanese engineers arrived with an added idea. Their machines were on tracks while the Smalley was a "walking" machine, pulled along by the front bucket.

Some Japanese producers have been offering to undercut Smalley by £1,000 for some machines. At an equipment exhibition earlier this month, the Japanese demonstrated their strength, with Kubota putting 184 construction and agricultural machines on display.

The company has kept up its remarkable tradition of engineering innovation. Its products include grader-diggers, which are a type of mini-excavator on wheels, pot-hole mounted excavators and a special low ground pressure machine for water channel digging used in mosquito eradication.

The company is in profit and hopes to achieve a turnover of £2m next year. Smalley employs 20 people and sold 60 of all types of machines last year, including mini-excavators. It still, however, has difficulty with the Japanese.

A number of UK companies, including Smalley, met officials of the British construction equipment federation recently as part of a campaign to obtain an EC investigation of Japanese excavator equipment pricing.

To a little company like Smalley it appears that the Japanese are not satisfied with having less than 100 per cent of the UK market for some machines. "We think the Japanese have been using unfair tactics to sell here," Mrs Smalley says. "They are now trying to pinch our grader-digger market."

Some Japanese producers have been offering to undercut Smalley by £1,000 for some machines. At an equipment exhibition earlier this month, the Japanese demonstrated their strength, with Kubota putting 184 construction and agricultural machines on display.

UK to sign \$4m SDI contracts

BY PETER MARSH

BRITAIN is about to sign a further \$4m worth of contracts under the US Strategic Defence Initiative programme, also known as Star Wars. It will bring the total level of contracts awarded to Britain under the programme to \$44m, a figure that a UK Defence Ministry official admitted over the weekend was disappointing.

The \$4m package was mainly in the form of two contracts due to be awarded to the Defence Ministry in the next week from the US SDI Organisation, the Pentagon body in charge of the programme.

The \$4m package - to be shared between work on lasers and techniques to protect space-borne equipment from enemy attacks - will be shared out among UK industry in a programme co-ordinated by the Royal Signals and Radar Establishment, a Defence Ministry research centre.

Companies such as Ferranti, Plessey and Marconi, part of General Electric Company, are expected to benefit from the work.

Under an agreement between the UK and US in December 1985, Britain is collaborating on the Star Wars programme, which is aimed at devising techniques to defend the West from Soviet missiles.

So far - despite the award of SDI contracts worth about \$7bn to US companies and hopes that UK work from the programme would total hundreds of millions of dollars a year - UK companies have gained only a minor foothold in the project.

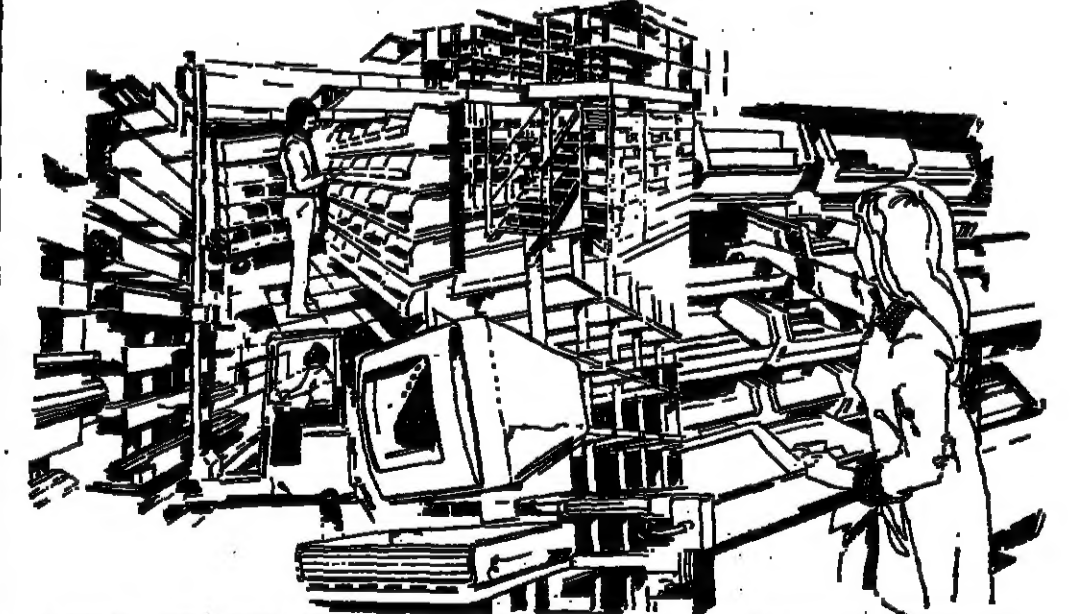
The Defence Ministry said in March that it hoped the sum of contracts gained by Britain would reach \$100m by the end of the year.

According to ministry officials yesterday, the build-up of contracts had been slower than expected. This was connected with the smaller amounts of cash awarded to the programme as a whole by Congress.

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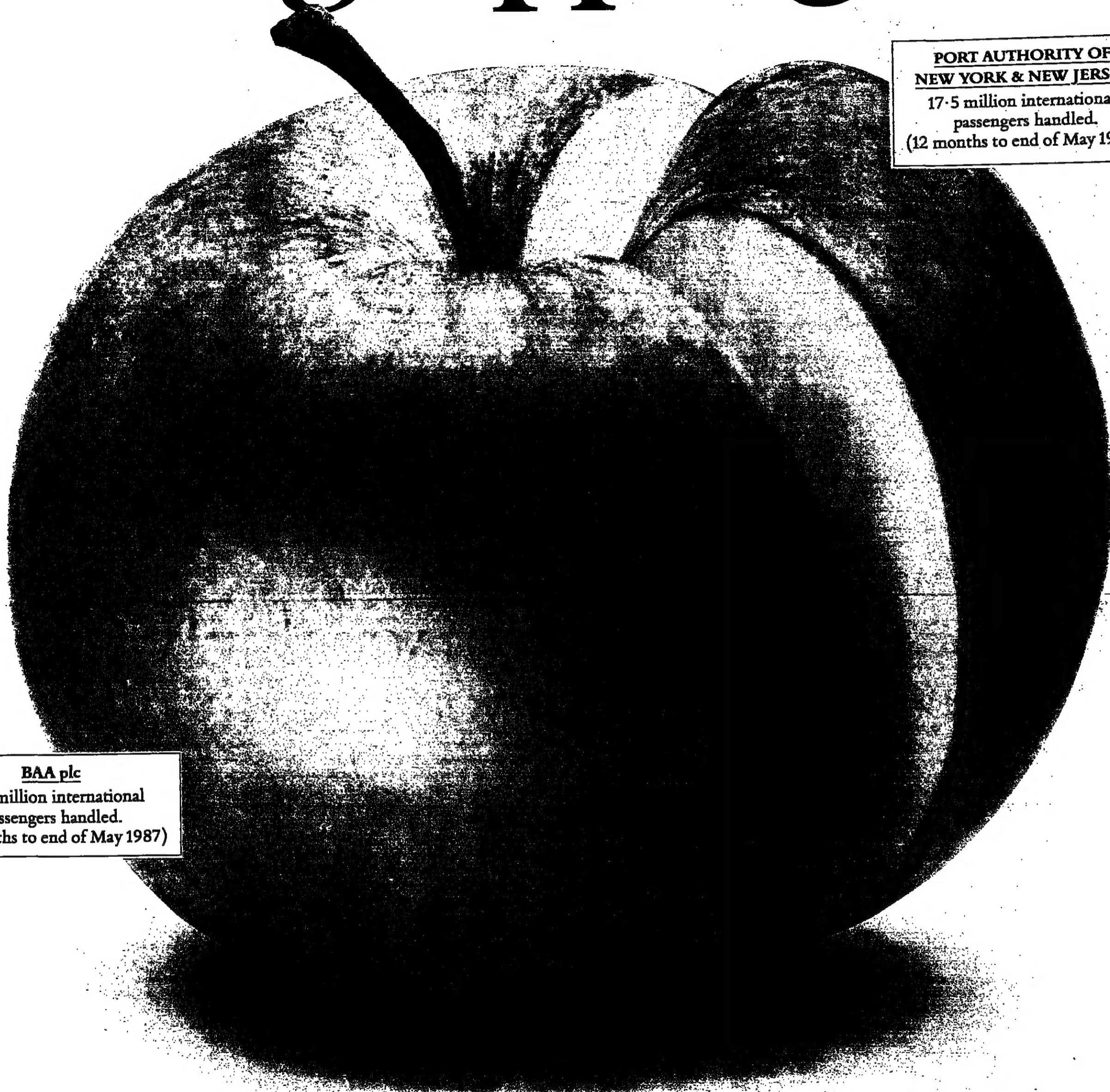
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UK NEWS

Employment in engineering 'to fall below 2m'

BY NICK GARNETT

EMPLOYMENT IN the UK's engineering-related industries, which was more than 3m in 1980, looks set to fall below 2m within the next two years.

The latest half-yearly economic trends report from the Engineering Employers Federation forecasts that over the next 12 months engineering employment will fall by 45,000 to 2.02m, compared with a drop of 158,000 during the previous two years.

The trend would push total engineering employment below 2m the following year. The federation's definition of engineering includes vehicle building, electronics and computers, office equipment, aerospace and mechanical engineering.

Engineering output volume is forecast to rise by almost 6 per cent in the 18 months to the autumn of next year. Car building and electronics-related sectors will mainly account for this growth, the report says.

Total cash sales for engineering industries this year, when

corrected for inflation, are expected to be just 3 per cent above the level of 1980.

In electrical engineering and aerospace, inflation-adjusted sales this year will be more than 20 per cent above those of 1980. Sales in mechanical engineering and metal goods will be about 15 per cent below.

Average productivity levels, measured as output volume per person employed, are estimated to be 56 per cent higher in the first half of this year, compared with 1980. The federation says productivity growth has been greatest in electrical engineering and least in mechanical engineering.

"Volume of output. Gross value added at constant 1980 prices. Sales are deflated to 1980 prices, using an appropriate price index. Non-capital purchases are also deflated to 1980 prices and subtracted from sales at 1980 prices. Adjustments are made for stocks and work in progress.

Privatisation worries electrical plant makers

BY MAURICE SAMUELSON

MAKERS OF heavy electrical plant are worried that an expected recovery in orders for power stations and other equipment will be interrupted by prolonged uncertainty pending privatisation of the electricity industry.

Their fears emerge in letters between Sir William Barlow, president of BEAMA, the plant makers' umbrella group, and Sir Philip Jones, Electricity Council chairman, who pledged Sir William's point would be "fully taken on board."

Sir William, saying that deliberations on privatisation could last three years, wrote that equipment suppliers "would not like to see any change in the ordering policy of the electricity supply industry in respect of capital equipment."

He said orders from area boards and the Central Electricity Generating Board had been improving and hoped this would continue.

He went on: "Any unnatural interruptions in the ordering pattern would give the electrical manufacturing industry

great problems and would have an immediate effect on the employment prospects within the industry. In other words, we would not like to think that the privatisation process will cause any hiccups."

Sir Philip, replying, said area boards and the Electricity Council would take on board the makers' concerns.

Other privatisation questions will be aired at a conference in London next month organised by the National Electricity Consumers Council. Speakers are expected to seek assurances on the degree of competition to be introduced into electricity supply.

They will include representatives of the newly formed Association of Independent Electricity Producers. It fears some monopoly features of electricity utilities would survive transition to the private sector. It plans to work with the Energy Intensive Users Group, which represents industries making similar complaints about the marketing policies of British Gas.

Managers' pay up by 7.6%, says survey

By Michael Shepherd

TOTAL REMUNERATION of British managers has increased by 7.6 per cent over the past year, largely as a result of the increased demand for competent staff according to a report out today.

The report, by Reward Regional Surveys, says that managers' basic pay, without bonuses, increased by 7.1 per cent in the year to September 1987.

It says a similar increase can be expected over the coming year because of the measures being taken by many companies to stop their trained staff being poached.

The report found that managers in the West Midlands, the north-west of England and in Scotland find it easier to buy houses than they did in 1984. For the average manager in Scotland, the cost of a three-bedroom detached house is equivalent to 2.4 years of pay, compared with 2.8 years in 1984.

In London, by contrast, the average manager requires 8.4 years' salary to pay cash for a three-bedroom house, compared with 5.2 years in 1984. A manager in the south-east, outside London, needs 6.2 years' pay compared with 5.1 years in 1984.

The report says that about 25 per cent of UK managers receive a bonus over and above base salary, compared with 23 per cent a year ago.

That is the result of companies moving away from bonus schemes and towards a system of base pay increases.

The report is based on a survey of managers, other than directors, in more than 600 UK companies.

Reward - Salary and Living Cost Report, September 1987. Available from Reward Regional Surveys, Reward House, 1 Mill Street, Stone, Staffordshire ST15 8BA. £55.

Counties to lobby for east coast motorway

EIGHT COUNTIES are to organise a campaign for the creation of an east coast motorway.

On the initiative of Humberside county council a working party drawn from Cleveland, Durham, North Yorkshire, Lincolnshire, Cambridgeshire, Norfolk and Suffolk met in June to plan the move. A seminar and exhibition will take place in 1988 to publicise the concept.

Peter Marsh looks at the changing fortunes of a leading domestic appliance manufacturer

Swan warms to Far Eastern toast technology

EARLY NEXT month the flow of industrial technology between Britain and Hong Kong - which for most of the post-war period has been in the direction of the Far East - will slip for a time into reverse gear.

The occasion will be the start-up in Birmingham of the first toaster production line run by Swan Housewares, a leading UK kitchen goods manufacturer. Swan admits that it has learned about toaster technology from the island colony - where up to now all Swan's devices of this sort have been made.

For Swan, which is owned by BSR, the electronics group, the event will mark an important step in a series of significant changes over the past two years to boost competitiveness.

The company, which was in a poor way financially in the early 1980s, made a clean break two years ago. It cut 600 jobs, nearly half its workforce, and brought in new management.

Since then, Swan's fortunes have improved. Employment at its two factories in the Birmingham area has crept up to just over 900, including 40 workers recently taken on to run the toaster production line.

After a financial loss in 1985, the company is on course to make a profit of about £2.5m this year on sales of £43m - of

which toasters account for about £2m with the rest taken up by sales of kettles, pots and pans and other electrical hardware such as deep-fat fryers.

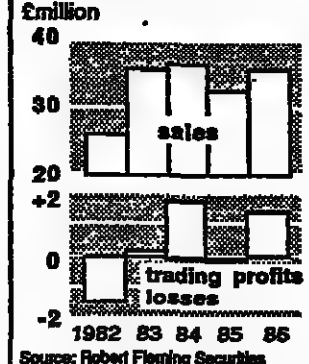
BSR plans to float Swan on the stock exchange, probably next year, in the process retaining what is likely to be a minority stake. Analysts believe the floated company would have a capitalisation of about £30m.

Hiving off Swan would mark the end of BSR's attempts to diversify into domestic appliances, a move which it made in the 1970s with the purchase of Bulpitts, Judge and Goblin, three long-standing Midlands companies later put together under the Swan name.

BSR, which moved into this area as part of a plan to reduce dependence on its main business of record changers, later admitted that the plan had gone awry. The company had difficulty fitting in the three domestic goods businesses, which during the 1970s employed between them several thousand people, with its other interests - which include communications and computer products and hi-fi equipment.

Swan has sold toasters - an area in which it is the UK market leader, accounting for about a fifth of total annual toaster sales of about £30m - for the past four years.

Swan Housewares



All these items, which Swan sells in a business in which its main competitors include Morphy Richards, Tefal and Russell Hobbs Tower, have been shipped in from Hong Kong from a company called GEW. The island colony is also the site of BSR's head office.

Mr John Sparks, Swan's engineering director, acknowledges that his company has picked up many ideas about toaster production from GEW. He says: "We built up a lot of experience and knowledge about toasters. Finally we realised we could make them ourselves in Bir-

mingham."

Under Swan's plans, the company will start production in the UK at the rate of a few thousand toasters a week, building up to 10,000 a week by the end of the year. Swan will sell the Birmingham-built devices in addition to the Hong Kong models, which the company intends to continue to import at the rate of about \$40,000 a year.

Mr Sparks claims with pride that the new toaster, which was designed by Swan's engineers and retail for about £25, is the first in which it will be possible to view the toast without interrupting the cooking cycle.

This stems from a special feature which permits the toaster operator to lever up the bread to inspect it without causing the heating element to switch off.

Mr Sparks has been responsible for a sweeping reorganisation of the company's factories, introducing ideas in quality control of the kind that are standard in areas like the motor industry but which are infrequently practised in domestic appliance manufacturing.

Swan is bullish about prospects for its various business areas. In kettles - an area in which Swan is among Britain's top three producers, the others being D.H. Haden and Russell Hobbs Tower - the company plans to step up exports to con-

tinental Europe.

Mr John Brougham, a blunt-speaking BSR executive who took over as Swan's chairman in 1985, says the UK kettle industry has in the past neglected the possibilities of selling to countries like France and West Germany, where use of the items is extremely low.

The company is dropping hints about starting up a UK production line in microwave ovens. Up to now, under an agreement with Daewoo of South Korea, all Swan's microwave ovens, which account for about £5m a year, are made overseas.

In a further indication of expansion, Swan is in the process of taking over a privately held Italian producer of kitchen goods called Girmi. As a result of the purchase, the cost of which has still to be announced, Swan will sell Girmi items like food-processors, ice-cream makers and blenders in the UK.

The company has particularly high hopes for an Italian-made fish steamer, which it thinks will be popular with Britain's health-conscious yuppie classes. The steamers will make a pleasant contrast to Swan's automatic teamsters - a traditional product which Bulpitts had made for decades, and which are sold largely as retirement presents.

Royal Life campaign 'not misleading'

BY ERIC SHORT

INVESTORS APPLYING for Royal Life's unit trust offer are not being misled by the "prospective" style of its advertisements and marketing campaign.

That conclusion, reached in an independent survey, rebuts widespread criticism that Royal Life's marketing campaign is conveying a misleading impression to investors regarding the immediate benefits of unit trust investment.

Royal Life Fund Management, the unit trust arm of Royal Life, a member of Royal Insurance Group, is spending £5.9m promoting three unit trusts. During September the company has been continuously advertising the trusts with the aim of selling at least £300m of units to a wide investing public.

The campaign, entitled The Royal Event, has adopted an innovative approach designed by Moorgate Group, a financial services specialist.

It is aimed not only at existing

investors holding the unit trusts, but other investors who had not previously invested this way.

To achieve that, the campaign has adopted the style and format of a privatisation issue, with a prospectus setting out details of the trust on offer and describing in detailed terms the benefits of unit trust investment.

The approach has been attacked from several quarters as conveying to the public the impression that unit trusts can provide large immediate investment returns in line with those seen from the various privatisation issues. The critics feel the public is not being made aware that unit trusts are a much more long-term investment.

Some critics have gone even further and claimed that the advertisements would contravene the rules of marketing being laid down under the financial services legislation. The Securities and Investments Board is

believed to be concerned about certain aspects of the campaign.

Royal Life Fund managers have reacted to this criticism by employing Audience Selection to carry out an independent survey of investors who had applied for both the Royal Life and a BP prospectus. This survey showed that 38 per cent of those interviewed found the Royal a more attractive investment while 36 per cent favoured BP.

When the survey asked for the attractions of the campaign, 30 per cent referred to its safe and long-term investment appeal. 19 per cent wanted to make their money work for them and 16 per cent were attracted to unit trusts.

Further analysis showed that 62 per cent of those favouring Royal said their choice had been made because unit trusts offered a wider and better choice of investments while 14 per cent were attracted to the long-term investment potential.

By comparison, 50 per cent of those who preferred BP's share offer expected to make a quick return and almost 40 per cent only 15 per cent attracted by the long-term prospects.

Mr Peter Baines, general manager of Royal Life Fund Management, said: "The survey shows that the Royal Event is seen as a medium- to long-term investment. In addition, respondents see a distinct difference between the Royal Event and privatisations."

The survey also showed more than half the applicants for a Royal prospectus did not hold any unit trusts. This indicates that the campaign is fulfilling one of its objectives of reaching a wider investment public.

Royal Life Fund Managers claim applications are running at 10 per cent to 15 per cent above targeted numbers. It expects comfortably to exceed the £300m target when the offer closes on Wednesday evening.

Schools should run themselves, academic says

A RIGHT-WING think tank today urges the Government to give state schools complete control of their own affairs, from buying books to hiring and firing teachers.

The Institute of Economic Affairs, in a booklet written by Mr Brian Caldwell, an Australian academic, says that government plans to give school governors control of a large part of their school's budget should be seen as a first step to complete decentralisation.

Mr Caldwell, senior lecturer in education administration at the University of Tasmania, says that far from reducing head teachers to mere managers the plan would boost their role as educational leaders.

He adds that teachers would be better motivated and parents could share in school policy-making if each school were given responsibility for running itself.

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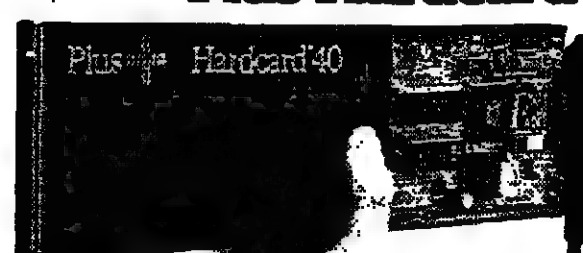
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OVERSEAS NEWS

Insider trading charges laid against 7 in Quebec

By David Owen in Toronto

THE QUEBEC Securities Commission has laid charges against seven individuals, including Mr Peter Blaikie, former Federal Conservative Party president, linking them with insider trading in the shares of Memotec Data, a small Montreal-based data communications firm.

The seven are charged with using information before it was made public concerning Memotec's successful C\$498m bid in February for government-owned Teleglobe Canada - the company that handles all Canadian overseas telephone calls. Charged along with Mr Blaikie were three Memotec directors, two Montreal residents and a fellow senior partner at

the Heenan Blaikie law firm. Heenan Blaikie helped to prepare Memotec's successful bid for Teleglobe.

The charges, which involve activities occurring between November 1986 and January 1987, amount to a penal offence under Quebec securities law. They carry a maximum fine of C\$1m and up to two years in jail. It is the first time that the QSC has attempted to prosecute under the insider trading sections of the province's securities Act.

An associate of Mr Blaikie, who bought 1,000 Memotec shares in mid-January at C\$10.50 per share, said that he felt the QSC was mistaken in its contention. "We are satisfied that there is no substance to the charge," he added, maintaining that the

shares were purchased by the trustee for Mr Blaikie's retirement savings account as the result of a decision taken well in advance of the processing date.

While Memotec shares are traded in both Montreal and Toronto, QSC officials state that most of the questionable trading uncovered so far in the course of their seven months investigation was conducted at the Montreal Stock Exchange.

The week preceding the government's announcement that Memotec had outbid five other would-be Teleglobe suitors was marked by extremely heavy trading in Memotec stock.

The defendants are scheduled to make a preliminary appearance before a Montreal judge on November 18.

Italian business attacks politicians

By John Wyles in Rome

SENIOR Italian industrialists, led by Mr Cesare Romiti, managing director of Fiat, appeared deeply disenchanted with the country's politicians at the weekend, alleging an anti-capitalist revival among Catholics and Marxists.

Amid a growing public debate about the need for legal curbs on the growth of Fiat and other large corporations, Mr Romiti took to the platform of a young businessmen's conference in April to warn that Fiat would fight "the most possible" campaign against any attempt to draw up a "vengeful" anti-trust law.

Referring to what he called "anti-capitalist vomit", he said there was "a Catholic strain which has always regarded profit as a sort of sin, while the Marxist left has not been able to stomach the fact that the country's progress in the last two years has been led by the corporate sector."

This tough language from the country's largest company partly reflects general business disappointment with the contents of the government's 1988 budget proposal, which would push up corporate tax bills and only slightly trim employers' welfare contributions.

Mr Carlo Patrucco, vice-president of Confindustria, the Italian industrialists' federation, claimed previously that the country's politicians "were frightened of the independence which companies have acquired because this reduces the powers of intermediation which they have always enjoyed."

Mr Romiti presented the current row with Iri, the giant state holding group, over Fiat's refusal to accept Mr Maria Bellisario as Iri's nominee to the managing directorship of the proposed joint venture between Fiat's Telettra and the public telecommunications company, Itelitel, as a necessary demonstration of determination to confront the state over the improper use of political power.

Fiat has said it has nothing against Mrs Bellisario personally, but implies that Socialist Party pressure for her nomination led to an unacceptable distortion of agreed procedures for establishing the management. The Fiat manager conceded that an anti-trust law could be worthwhile to deal with monopolies.

Cairo metro buries its problems

By Tony Walker in Cairo

It may have been one of the most complicated construction jobs ever undertaken, but yesterday difficulties were temporarily forgotten as the leaders of Egypt and France declared open in Cairo the Arab world's first underground rail system.

President Hosni Mubarak, with Prime Minister Jacques Chirac looking on, cut a blue ribbon to inaugurate the metro. The opening ceremony took place at a station named after the late Egyptian President Anwar Sadat beneath Cairo's main Tahrir square.

French engineers encountered huge problems in their efforts to construct a metro beneath a de-

caying city without detailed maps of underground water pipes, communications cables and sewage systems. Their task was not helped by the fact that Cairo is built on a swamp with the water table close to the surface.

France is providing Fr400m (\$660m) in soft loans and Coface-backed credits. This will cover two-thirds of the cost of the two-stage project, begun in 1982.

The first stage joins a 4.5km sub-surface line with an existing rail system to Helwan, an industrial area in the south of the city.

A second phase, connecting the metro with a line to the north, will be completed late

next year. The new system, which includes six subway stations, links up a 42km rail network to help ease congestion in overcrowded Cairo.

Contractors are Interinfra-Arabe, combining 17 French and two Egyptian companies led by Arab contractors. Consultant engineers are RATP of France aided by Arab consulting engineers.

The project is about 12 months behind schedule. Cost overruns are the subject of a dispute between the Egyptian government and French companies. These companies claim that govern-

ment-imposed delays, mainly through lack of coordination between various instrumentalities, are responsible for the job not being finished on time.

There were also frequent stoppages because of difficulties in the tunnelling phase. Burst water pipes and severed cables were just two of the more familiar problems.

The French, however, are for the moment trying to shrug off the difficulties. "For us," said a French official, "these things belong to the past. Everyday, there's a new problem, but that's nothing new."

Nakasone pledges support on Kampuchea

By Peter Ungphakorn in Bangkok

Mr Yasuhiro Nakasone, the Prime Minister of Japan, yesterday ended a three-day visit to Thailand pledging support for efforts by the Association of South-East Asian Nations (Asean) to solve the conflict in Kampuchea.

Mr Nakasone echoed Asean's call for the withdrawal of Vietnamese troops but was careful not to commit Japan to proposed "cocktail party" talks in which the warring Kampuchean and Vietnamese factions would meet informally. He added that Japan is ready to provide economic support for a neutral and

independent Kampuchea.

Mr Nakasone was in Thailand to celebrate the centenary of official bilateral relations. The Japanese government has taken the opportunity to stress the importance it attaches to relations with Thailand and to improve Japan's image there.

The Japanese government has promised to recycle \$2bn of its foreign exchange surplus to an Asean development fund, the details of which are expected to be announced at an Asean summit in Manila this December.

On September 18 the two countries signed a soft loan

agreement in which Japan will lend Thailand Y80.8bn.

Attempts by Asean to start negotiations in Kampuchea are deadlocked over the timing of Vietnamese participation. Vietnam and Indonesia recently agreed on informal talks involving initially the Vietnamese-backed Heng Samrin Government and the three groups in the resistance coalition, including the Khmer Rouge. The Vietnamese would join such a meeting later.

But the other Asean countries objected on the grounds that this arrangement would dimin-

ish the importance of the Vietnamese presence in Kampuchea, regarded by many as the key issue.

At an audience with the King of Thailand on Friday, Mr Nakasone offered Y4bn in grant aid to be spent over the next three years for an irrigation project in the south of Thailand.

He also promised to look into the possibility of untying some of the strings attached to Japanese grant aid, which has provoked Thai protest by favouring workers and products from Japan.

Vienna arms talks progress expected

By Judy Dempsey in Vienna

NATO and the Warsaw Pact countries resume another round of informal negotiations in Vienna today aimed at giving a fresh impetus to cuts in conventional forces in Europe.

If these negotiations are given a mandate, they could supersede the 13-year-old deadlocked Mutual and Balanced Force Reduction Talks (MBFR).

The talks, referred to as the "23", have been held informally in Vienna since February. They are taking place within the framework of the Helsinki follow-up review meeting of the Conference on Security and Co-operation in Europe (CSCE) which, except for Albania, involves all the countries of Eastern and Western Europe, the Soviet Union, Canada and the US.

Diplomats are "cautiously optimistic" that today's talks will lead to progress.

The more optimistic air is also due to the fact that both sides have put forward proposals as to what the talks should focus on. In June, the Warsaw Pact tabled a draft plan which included a suggestion that short-range nuclear weapons and some tactical aviation systems should be covered. Nato, which opposes this, presented a draft framework on "conventional stability" in July.

Taipei reforms snag for Peking

By Robert Thomson in Peking

THE unprecedented visit to China of two Taiwanese journalists, who returned home yesterday, has forced the Chinese government to focus attention on the rapid change taking place on the nationalist-held island that it regards as a province.

China, which is attempting to lure Taiwan back to the fold, has officially ignored the recent lifting of martial law and easing of foreign exchange restrictions, and so was taken aback by the sudden appearance of the two journalists, who visited four cities during their 13 days on the mainland.

On the one hand, Peking welcomed the journalists as a sign of increasing contact with Taiwan, but officials here could hardly be dismayed by the discouraging reports of China's backwardness, blandness and police control that appeared in the journalists' newspaper, the Independent Evening Post.

Peking is also concerned by the rise of a political opposition party, the Democratic Progressive Party, that has "self-deter-

mination" for Taiwan as a key policy. Elderly Communist leaders have much in common with elderly nationalist leaders, including a desire for "one China," though on different terms, but the new breed of Taiwanese politician with an eye on genuine independence has Peking worried.

The campaign to reunify Taiwan with the mainland gathered strength following the successful negotiations for the handing back of Hong Kong and Macao.

AP adds from Taipei: The two journalists face a possible three-year prison term, the Taiwan government said yesterday. The Government Information Office alleged that they had filed false applications for overseas news reporting and would face criminal charges in Taipei District Court.

Lee Yung-der and Hsu Lu, the first reporters to openly defy a 38-year-old ban on travel to the Chinese mainland, visited Beijing and southern China, filing reports widely read by Taiwanese readers.

The Nationalist government lost a civil war to the Communists in 1949 and fled from the Chinese mainland to the island of Taiwan with about 2m supporters, many of whom left friends and relatives behind.

Bush meets Polish leader

By Christopher Dobson in Warsaw

MR GEORGE Bush, the US vice-president, yesterday met General Wojciech Jaruzelski of Poland on the second day of his Polish visit designed to speed up an improvement in relations which broke down six years ago in the wake of martial law.

The visit crowns a year of lower-level bilateral contacts which started after General Jaruzelski announced Poland's political prisoners last autumn. The US has so far adopted the toughest line among Poland's Western government creditors on rescheduling the country's \$33.3bn foreign debt and this visit is seen by the Polish authorities as an ideal opportunity to put the case for easier terms and a resumption of credits.

The visit takes place just before Mr Bush is formally to announce his candidature in next year's presidential election and the programme has been finely tuned to put him in the best light for the TV audiences back home.

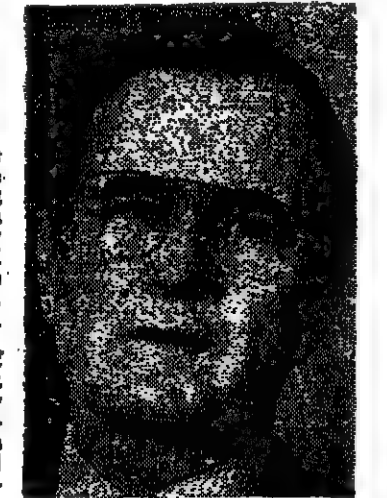
He is visiting Anshwitz before he leaves Poland tomorrow and has laid a wreath in Warsaw at the monument to the victims of the ghetto uprising. His support for Polish national aspirations was underlined by a meeting with Mr Lech Walesa, the Solidarity leader yesterday evening. At the last minute however, the Americans withdrew a previously extended invitation to Mr Jacek Czaputowicz, a leader of Freedom and Peace, a pacifist group who had been planning to raise the case with Mr Bush of Mr David Kerley, from Kansas, serving three years for refusing to register for military service in the US.

Yesterday Mr Bush, a Presbyterian, attended a Catholic church service just outside Warsaw. He told an applauding congregation in a speech from the altar steps "the last few years have been difficult and we in the United States have tried and suffered with you. But we are confident you will prevail."

Earlier, to the discomfort of Polish officialdom, Mr Bush met a leader of Farmers' Solidarity, Mr Gabriel Janowski, at a private farm which the authorities had insisted Mr Bush should visit. Mr Janowski had been invited by the owner, Mr Jan Salowski, who had been chosen as a better representative of the private sector than a farm picked for Mr Bush to visit by US officials.

So far Mr Bush has failed to attract significant crowds and the hundreds of people who

have turned up have invariably found themselves in the company of at least four busloads of Polish plainclothes policemen who are following him wherever he goes.



Vice-President George Bush

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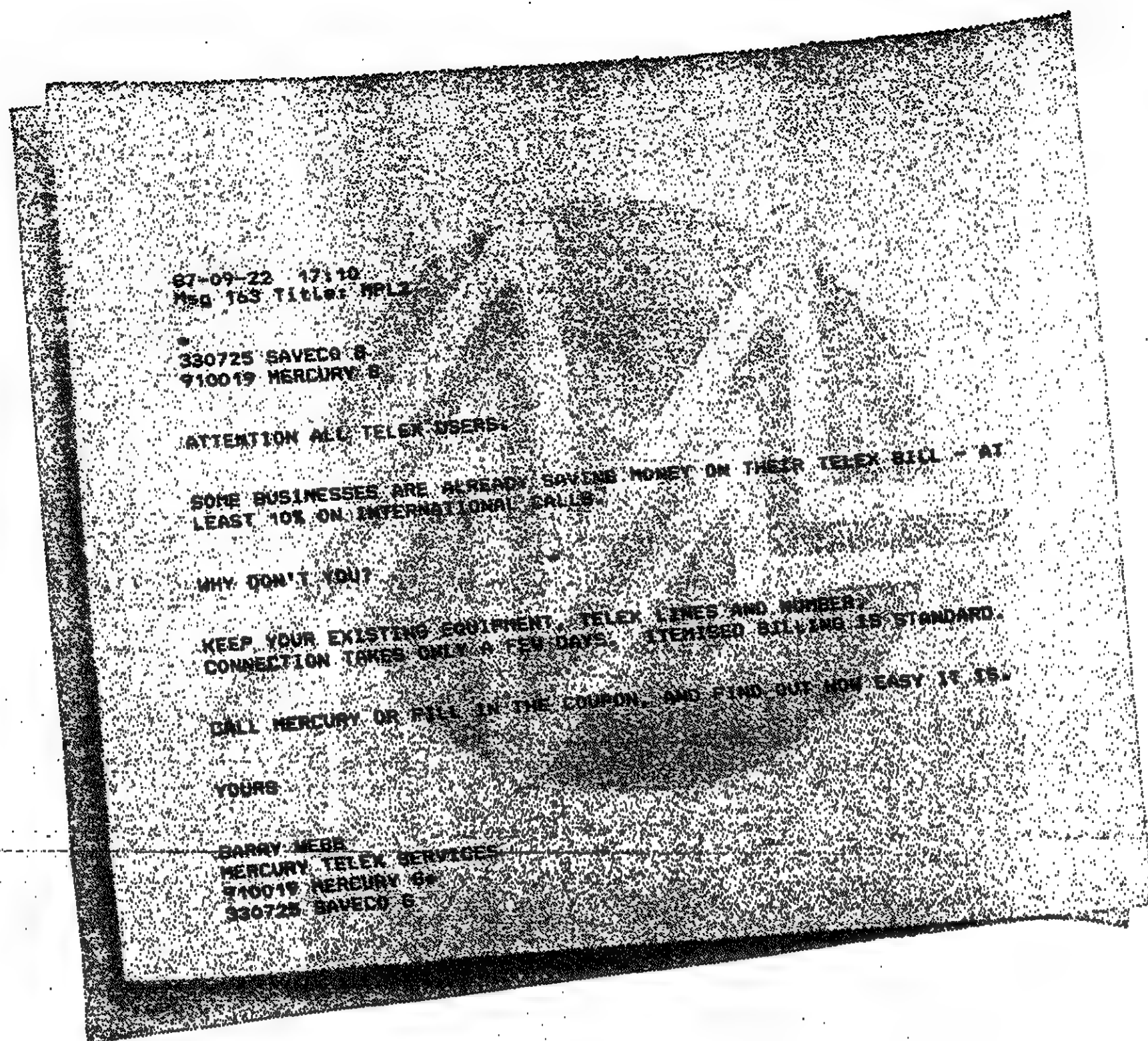
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UK NEWS

Inner-city revival scheme for 'mini' corporations

BY PETER RIDDELL, POLITICAL EDITOR

A NEW GENERATION of 'mini' urban development corporations is to be announced by the Government before the end of this year.

The number and identity of the corporations has yet to be decided and will depend on the current Whitehall reviews of public spending and urban policy.

The Department of the Environment is confident that before Christmas it will be able to announce several new corporations with similar sweeping powers to the existing six in England but smaller in scale and also financially cheaper.

Among the likely sites are cities in the East Midlands, such as Leicester and Derby, where ministers feel that local authorities are holding up the development of land and are sometimes hostile to business.

However, unlike most existing corporations in places such as the London Docklands and Teesside, the obstacles to the new sites are not so much those of needing large sums of money to make derelict land suitable



Nicholas Ridley, recycling money

for development but rather those of planning constraints. The new 'mini' or 'cashless' corporations will therefore require much less money than the existing ones for land reclamation but will have the advantage of being planning authorities with land assembly and compul-

sory purchase powers. The aim will be to ensure business confidence and to attract private-sector capital.

That reflects the view of Mr. Nicholas Ridley, Environment Secretary, that the role of his department should be to spend money, often in conjunction with the private sector, to help to improve and regenerate land and property for resale at a profit.

That would provide money that could be recycled, reducing the call on the Treasury.

Final decisions will depend in part on a current Whitehall review of urban policy to assess the regional distribution of the various grants.

Mr. Ridley has also yet to reach agreement with the Treasury on finance for new projects such as the 'mini' corporations and the housing action trusts that would take over local authority estates.

Detailed proposals for the trusts and for a changed system of housing benefits after rent deregulation will be set out in a housing white paper to be published tomorrow.

B & C to set up venture company

By Charles Bickley

BRITISH & Commonwealth Holdings, the financial services group headed by Mr. John Gurn, is to set up a £100m development capital fund to rationalise its existing patchwork of investments and to back ventures of its own.

B & C Ventures says it intends to broaden the traditional definition of development capital by putting its money into small quoted companies as well as into unquoted investments. It will avoid start-ups and early-stage financing to concentrate on management buy-outs and expansion financing.

Mr. Ian Hisslop, joint managing director of the new management company, said: "There is no difference between a £20m company which is quoted and one which is unquoted."

"We think there is a gap to be filled in providing funds for the smaller quoted company. Their shares are often under-researched by the brokers and are relatively unmarketable."

Mr. Hisslop and Mr. Richard Wevill, also joint managing director, have been brought in to set up B & C Ventures after establishing the development capital arm of Abaco Investments, the professional services group in which B & C has a 28 per cent stake. They have a team of five executives that will expand to eight.

B & C began making venture and development capital investments before the terms became fashionable but its complicated company structure, comprising operating subsidiaries, associated companies and investments, often confused the City.

"We have to become more focused," said Mr. Hisslop. "People now know where to come within B & C if they want money."

Excluding the parent company's stakes in trading subsidiaries, its quoted and unquoted investments have a book value of £100m. Not all of those will be transferred, however, and more than half of the new fund's value will be new money.

B & C Ventures expects to be able to take a longer-term view than most companies and to have a small venture capital fund, said Mr. Wevill. Unlike the normal fund manager it will not be under pressure from institutional backers.

Council agrees Royal Docks deal

BY BRIAN GROOM

LABOUR-CONTROLLED Newham Council in east London has agreed a deal with the London Docklands Development Corporation and has reached an important agreement to co-operate with the commercial development of the borough's disused Royal Docks.

Council leaders hope the deal will yield up to £100m in social and economic benefits from the corporation and developers.

The wide-ranging agreement is a breakthrough in the LDDC's often strained relations with local authorities since the Government set it up in 1981. It marks a shift in the political climate as urban development corporations are set up around the country.

In return for council approval for roads and infrastructure works, the corporation will attempt to ensure that 1,500 homes are built which are cheap to rent or buy. It will put £10m over two years into community projects such as schools, meeting places and environmental schemes - a figure which could eventually grow to £80m, though not all from LDDC coffers.

The two sides have agreed to try to ensure that 25 per cent of the jobs created in the borough will go to local people. This will involve identifying and catering

for the training needs of potential employers.

The council may also put some of its land assets into proposed developments, which would enable it to receive a proportion of the profits made by companies moving into the docks.

The LDDC is in negotiations with three consortia to develop different parts of the docks. One of these, Rosehaugh Stanhope, will seek outline planning permission for its proposals from the corporation's planning committee tomorrow. A second consortium includes Conran Roche, Heron and Mowlem, and a third has John Laing and Mountleigh among its members.

The agreement between Newham Council and the LDDC is due to be signed tomorrow. Some of its provisions require approval by the Environment Department.

Newham Council expects criticism from community groups that the deal does not provide enough benefits for local people and that development of the Royal Docks could detract from East Ham and Stratford as shopping centres to the west.

However, Mr. Steve Timms, chairman of the council's joint planning and policy committee, has told protesters: "We are getting the best deal we can. These are not the crumbs from the table we have been used to."

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BBC China radio strengthened

By Raymond Snoddy

BBC EXTERNAL Services yesterday turned up the sound for tens of millions of potential listeners in Peking, Shanghai and throughout northern and central China.

Until yesterday the corporation's signal from transmitters in Singapore only just made it to Peking. The faint, often inaudible signal had to compete with a powerful Voice of America transmitter on Guam and with Radio Australia's Chinese service.

New programmes in English and Mandarin will be fed by satellite to the new 50m transmitter, the BBC's East Asia Relay Station, sited in Hong Kong. It is part of a £100m audibility programme approved by Parliament in 1984. Broadcasts from Hong Kong will go throughout east Asia on two new 50kw transmitters.

The audibility programme is designed to create an audience for BBC External Services by replacing old transmitters, many of Second World War vintage.

Mr. John Tusa, managing director of BBC External Services, who will be holding a press conference in Peking tomorrow, said: "A quarter of the world is being opened up to us with the introduction of this new facility."

China, where the number of radio sets has grown from 1m in 1950 to more than 150m now, will receive daily 10 hours of the English-language World Service and 2 1/2 hours of Mandarin, an increase of one hour.

Broadcasts to Japan will also increase. The corporation is waiting to hear from the Foreign Office whether it can have the £150,000-a-year extra funding needed to launch a Korean language service.

The corporation hopes five radio transmissions a day in English will be a significant audience-builder. Its English-language teaching series called Follow Me was a peak-time hit on Chinese television.

The corporation has no idea how many listeners it already has in China. It receives 80,000 letters a year from there.

Mr. Graham Mytton, head of international broadcasting and research, is in China with Mr. Tusa. He hopes to introduce audience research there for the corporation.

The corporation broadcasts 24 hours a day in English and 36 other languages. It says it attracts 120m regular listeners, with an annual budget of £10m including cost of the Monitoring Service at Caversham, Berks.

The next stages of the audibility programme and the contest with Voice of America - which is spending £100m on new transmitters in Israel's Neguvim desert - include new transmitters in Laos, to cover southern Africa, and in the Seychelles, to broadcast to East Africa and the Horn of Africa.

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Lobbying to begin over tapes levy

By John Griffiths

THE UK's music industry is expected this week to start lobbying Lord Young, the Trade and Industry Secretary, urging him not to abandon proposals for a 10 per cent levy on blank audio cassette tapes.

The measure, aimed at providing musical performers and the music industry with some measure of recompense for revenue lost to widespread "pirate" copying, was expected to be included in the Copyright and Intellectual Property Bill due to be introduced to the House of Lords shortly.

Previous green and white papers on intellectual property rights from the Department of Trade and Industry had supported the levy, concluding that there was no technical way in which the industry could prevent unauthorised copying, and acknowledging the impracticality of putative voluntary licensing schemes.

Lord Young, however, who succeeded Mr. Paul Channon as Trade and Industry Secretary in Mrs. Thatcher's post-general election Cabinet shuffle, is said to have asked whether the levy might appear to legitimate unauthorised copying by companies and private individuals.

The department yesterday denied reports that a decision had already been taken not to proceed with the levy. It was one of a number of issues being reviewed by Lord Young.

Pressure from the levy would go to the holders of the copyrights attached to the cassettes' contents.

If the levy is not introduced, the music industry, which claims to be losing millions of pounds a year from "pirate" sales, is likely at least to demand that the DTI comes up with some fresh proposals.

The levy legislation has been long promised and the industry has already shown its anger over failure to implement it. A bill originally intended to introduce the levy was squeezed out of last year's parliamentary programme by the election.

Debenhams, the department store chain in the Burton Group, is to take 125,000 sq ft of space in the final phase of the Merry Hill Centre at Dudley, near Birmingham, Richardson Developments has announced.

Merry Hill and the Metro Centre at Gateshead are the first of Britain's new regional shopping centres being built or planned on the edge of large towns. Richardson is developing Merry Hill on the site of an old steel works, employing the old policy of enterprise zone tax concessions.

The arrival of Debenhams anchors the final phase of the shopping development. The store joins Top Shop, Top Man, Principles and Dorothy Perkins, all of which are Burton subsidiaries. Other groups taking space in this phase include Boots, Littlewoods, Next, Sainsbury and W. H. Smith.

Richardson has so far brought into operation 600,000 sq ft of shopping space. Merry Hill, scheduled for completion by September 1989, will have 1.2m sq ft of shopping

Factory space outlook better

BY PAUL CHEESEBRIGHT, PROPERTY CORRESPONDENT

THE AMOUNT of space available in England and Wales for the manufacturing and distribution industries continued to decline through the summer, but the rate has been levelling off and there are signs that the trend is about to go into reverse.

On the basis of the experience in recent months, the stock of available space will show an increase in December 1987, according to King and Co, chartered surveyors, which has been conducting surveys of available

industrial floor space every four months since 1975. At 55.5m sq ft, the total space now available is at its lowest level since 1980.

Tighter availability of industrial space reflects in part an expansion of economic activity. But it is also a result of changes in land use and a lack of institutional investment in new industrial property ventures.

The higher level of demand for the space available has led to an increase in charges for

companies taking new premises. Debenhams, a Burton subsidiary, chartered surveyors, recently reported that in the year to mid-1987 there was an average 15 per cent increase in rents.

For the Government, seeking to spread economic expansion out of the south-east, an encouraging aspect of the latest King survey is that space is being taken up more rapidly in the Midlands, north, north-west and Yorkshire and Humberside.

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New targets for urban funds

BY IAN HAMILTON FAZEY, NORTHERN CORRESPONDENT

THE GOVERNMENT is to switch its urban programme funds into job creation by severely limiting the type of project it will support.

In future the money will be concentrated on turning derelict factories into managed workshops for small or growing businesses. "Community projects", favoured by Labour-controlled authorities, will not be permitted.

In an interview with the Financial Times, David Trippier, the inner cities minister, said: "I would rather support managed workshops than a social club with, possibly, political leanings."

The shift of urban programme funds from "social spending" into job creation was signalled by Mrs. Thatcher when she toured Teesside last week. She said that funds were to be "re-targeted".

"Social" projects - such as building clubs, resource centres and community centres - which are usually led by a local authority now seem doomed. Mr. Trippier hopes that private-sector developers will play a leading role in what he sees as an "old factories into new jobs" initiative.

Under the urban programme the Government pays 70 per cent of the cost of those parts of any project which qualify for support. The minister said that he would insist that was acknowledged through prominent display on every project of its Action for Cities logo and slogan - "Building on Initiative".

Ministers are believed to be tired of local authorities taking most of the credit for urban programme schemes, denying the Government the favourable publicity involved.

Mr. Trippier cites east Manchester, where many old red-brick mill buildings are either disused or only partly occupied, as a prime target. He wants to channel urban programme money into structural repairs and refurbishing the buildings for smaller businesses.

He envisages every project providing centralised secretarial, computing and accounting facilities for the tenant business and believes that counselling would be available as enterprise agencies set up or relocated there.

Managed workshop schemes have already proved themselves successful incubators of small businesses, improving survival prospects and shepherding the best prospects to faster growth elsewhere on industrial estates.

RAT Industries was among the early pioneers with a warehouse conversion in the Liverpool docklands. One of the most spectacular successes has been Dean Clough Industrial Park in Halifax, West Yorkshire, a 1m sq ft complex of disused carpet mills.

The conversion was carried out by Mr. Ernest Hall, the co-founder with Mr. Tony Clegg of the Mountleigh Group. Dean Clough is now occupied by more than 250 businesses which pay more rates in total than the mills did when they made carpets.

That is partly because the trend towards private sales has again deprived the trade of a growing number of the more desirable cars, it says in its editorial for next month.

Used cars in good condition and under five years old are fetching prices between 1 per cent and 4 per cent higher than for the corresponding new cars last year "and there is little indication that this will deteriorate in the coming months."

The book says: "We feel that in the weeks ahead the disposal of good clean cars at all mileages will pose few problems. It is the below-average cars which will become more difficult to sell."

It says the introduction of the prefix letter to car number-plates annually in August appears to have had "an effect both greater and longer-lasting than was originally expected."

It estimates new-car sales last month will account for 21 per cent of the total expected for the year. That is very close to the average 20 per cent for August in each of the five years since introduction of the prefix letter in 1983.

In contrast, the average for sales in August for the past five years of the suffix, that is for 1978-82, represent only 16 per cent of the annual total.

The book predicts that new-car sales this year will rise by 3 per cent on last year's record, to 1.94m. That concurs with latest statistics from the Society of Motor Manufacturers and Traders.

Those show that, after the record August, in the first 20 days of September new-car registrations were 8.6 per cent ahead of those for the corresponding period last year, at 105,423.

operandi were announced in the Brighton and Hove area two weeks ago.

Under the scheme, VPPS provides property owners eager to discourage illegitimate parkers with signs for prominent display on their sites. They proclaim that unauthorised parkers will be clamped and that a £25 fee will be charged for the clamp to be removed.

Doubtless much to the relief of the client companies, the property owner, it is to VPPS itself that the notices direct the "clamped" for removal of the device.

Only two requirements are made of the "client", said Mr. Hancock - to pay for the signs

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UK NEWS - LABOUR AT BRIGHTON

Hattersley strategy for revival

LABOUR had to rehabilitate socialism in the same way that Mrs Margaret Thatcher had re-vitalised conservatism, Mr Roy Hattersley, the party's deputy leader, claimed yesterday in Brighton.

Mr Hattersley, who was addressing the Solidarity rally on the eve of Labour's annual conference, said the Tories had promoted a range of policies - from trade union legislation to privatisation - for unshakeable political reasons. Labour now had to advocate its beliefs with equally triumphant clarity.

He rejected the idea that Labour could never again form a government on its own. Its task was not to reject ideology but to choose and maintain a correct and clear ideology. "What we need now is not the abandonment of philosophy but clear association with the real philosophy of democratic socialism," Mr Hattersley suggested.

He added: "Our future depends not in pretending that we have no fixed principles, but in asserting that the principles on which we stand point the way towards a fairer and more efficient society."

The deputy leader claimed that Labour could not afford to entertain the idea of coalition politics. A party built around a clear, consistent and coherent ideology could not negotiate away its programme and its principles to secure the support of a minority party.

He added: "This year the issue does not arise. Talking about coalition with the SDP would be like proposing marriage to a corpse."

Mr Hattersley also rejected those within the Labour Party who were calling for proportional representation. On Friday, he would be advising the



Roy Hattersley: pointing way to a fairer society

party to vote decisively against, not just for tactical reasons but on an argument of principle.

He said proportional representation was an electoral contrivance which produced two inevitable and undemocratic results - the election of the "second best" and the eclipsing of radical policies in a way which

Proportional representation, he claimed, led to "the soggy middle ground of minimum commitment, minimum conviction and minimum confidence in ultimate victory."

Mr Hattersley warned that if Labour attempted to portray itself as a party of pragmatists, the public would think either that it believed in nothing at all or in every half-baked idea that is published in all the hand-

printed magazines produced on the wider shores of politics."

He said the party had to show that the principles of democratic socialism were so relevant to daily life that to argue their merits was to demonstrate that Labour was the party of the whole nation, ready to lead it into the next century.

Labour, he stressed, had to steer a steady course, not swinging wildly between one policy designed to attract the middle classes and another intended to prove that it remained the party of socialist fundamentalists.

The real philosophy of socialism - the protection and extension of real freedom - had an immense popular appeal.

He continued: "We do not have to choose between principle and popularity as long as we make clear that we support the real principles of socialism and not either the half-baked ideas of the fringes and factions, or the supremely unattractive heresy that socialism is about regulation, direction and interference in the daily lives of ordinary citizens."

On BBC1's This Week, Next Week, Mr Hattersley pressed home his attack on the party's left wing, claiming that it was bankrupt of ideas and could only advocate a "razz-dazzle" not associated with true socialism.

He said Labour was not about to indulge in a bout of recriminations but ready to rewrite its policies which now needed rewriting "in a steady and remarkably fraternal way."

He said he was not, at this stage, prepared to say which policies would have to be changed. He denied voters a real choice.

On one point, however, all in the party are agreed. There can be no question of any kind of deal with the Liberals, the SDP or any merged party. The

unsuccessful alliance of Benn, Livingstone, Gould and Hattersley has firmly stamped on suggestions of such an electoral pact or understanding made earlier this summer by Marxism Today and the New Statesman, those house journals of the fashionable left.

Similarly, there has been firm rejection of calls for proportional representation, which have been made in a number of resolutions to the conference, and it is significant that Mr Hattersley has been asked to reply.

The Labour leaders of all shades are agreed that any electoral pact would do great damage to the party without providing any electoral benefits in return. They point to opinion polls showing that the Tories have benefited as much as Labour, if not more so, in the past couple of months from the fall in the Alliance vote.

At a Fabian meeting, Mr Gould was asked to defend the party's position on the subject of electoral pact. He said that the party was not interested in extending and improving its appeal, and a deal with the Liberals would inhibit that process.

At the same meeting, Mr Richard Hain, a close adviser to the Liberal leader, Mr David Steel, also rejected talk of an electoral pact, but urged Labour to accept proportional representation. He said this would mean that Labour would have to accept electoral competition, rather than clinging to monopoly and its electoral cartel with the Tories.

Labour, however, is firmly committed to regaining office and power on its own, without the Liberal leader, Mr David Steel, also rejected talk of an electoral pact, but urged Labour to accept proportional representation. He said this would mean that Labour would have to accept electoral competition, rather than clinging to monopoly and its electoral cartel with the Tories.

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Hard left warns party over move to centre

A STRONG challenge to the Labour leadership's analysis of the general election result and to its proposed future strategy has come from the party's hard left in a series of pre-conference pamphlets and fringe meetings.

A group of MPs, including Mr Tony Benn, Mr Ken Livingstone, and Mr Alan Meale, on Saturday published a 20-page pamphlet challenging the national executive's statement which advocated a review of policies to win support of better-off workers, particularly in the south.

The pamphlet, entitled Labour's Future, claimed that the leadership was concentrating too much on skilled manual workers who switched to the Tories, rather than on the growing group of unskilled and semi-skilled manual workers, together with clerical workers.

The critics argue that the leadership is downplaying the party's links with the unions and should adopt a new strategy developing its policies on women and the changing sexual and racial composition of the workforce.

The essential case of the hard left was put most succinctly and wittily by Mr Dennis Skinner, the MP for Bolsover, at a fringe meeting of the Campaign for Labour Party Democracy yesterday morning. He warned against "adopting the mantle of David Owen."

He said: "It is not the job of socialists to shift our ground to the area left by the SDP."

With a reference to the luxurious waterfront headquarters hotel, Mr Skinner said the party should "stop drifting towards Ramada." Labour, he said, had lost the election because there was "not enough socialism."

Both Mr Skinner and other speakers at the meeting attacked the leadership approach epitomised by recent speeches by Mr Bryan Gould. Mr Diane Abbott, the black MP from Hackney elected to parliament for the first time last June, attacked moves to the centre appealing to "the mythical yuppie vote."

Similarly, Mr Ken Livingstone, new member for Brent East, dismissed as "nonsense" Mr Gould's alleged view that wider share ownership would help to produce a big increase in Labour support and a shift in the balance of power.

Reports by PETER RIDDELL, MICHAEL CASSELL and PHILIP BASSETT

Mr Livingstone argued from Labour's history that attempts to accept Tory policies had failed on every occasion.

The conference newsletter of the Campaign for Labour Party Democracy says this week "will decide whether Labour's drift to the right will continue or whether the tide is turning."

The newsletter asserted: "For four years the party has lived in a dream world. The disastrous result of the election, however, should have made clear that concessions to the capitalist status quo and Tory philosophy did not work."

"Far from winning us votes, they actually prevented Labour from projecting itself as a credible and positive alternative to Thatcherism."

Much of the hard-left criticism is concerned with the policy review and with proposals for widening the franchise of the selection of parliamentary candidates.

Under the headline, "Roll Back New Realism," Mr Eric Heffer, the MP for Liverpool Walton, writes in Labour Briefing that the new proposals "are simply another means of weakening party democracy and another excuse to drop socialist policies."

Criticising suggestions for a series of public meetings, he says: "What kind of political party simply echoes whatever ideas happen to be popular at any given time? If people tell us they want to see hanging brought back, does that mean hanging should become official Labour party policy?"

Mr John Rington, the HSE's director general, in a circular to heads of department within the executive issued on September 17, warned that disciplinary action may be taken against staff disclosing details of the executive's operations. The circular said that it did not matter whether what was said was true, or even whether in an inspection.

Both the NGA craft print union and the Musicians' Union, for example, have increased their affiliated vote by 10,000, according to Labour Party figures, to 41,000 and 16,000 respectively.

The TGWU postal union is raising its affiliation level by 6,000 to 197,000, and the film technicians' union, ACTT, by 3,000 to 5,000 - a 68 per cent increase.

Trade union moderates are convinced that Ms Joan Maynard, the hard-left MP for Sheffield Brightside, will be voted off the national executive committee in election results which may be announced today.

Leaders of the TGWU transport union are believed to be among those who have decided this time not to vote for Ms Maynard for the six NEC seats available in the women's section of the executive.

It looks likely that her place will be taken by Ms Anne Clywd, MP for Cynon Valley, who is regarded as a close supporter of Mr Neil Kinnock, the party leader.

Electricians face test case over single-union deals

BY CHARLES LEADREATER, LABOUR STAFF

THE EFFECTIVENESS of TUC attempts to minimise conflict between unions over single-union recognition agreements will face a crucial test this week when the EETPU electricians' union withdraws from such an agreement at a plastics factory.

This is in compliance with a TUC instruction.

The EETPU's single-union agreement at the Elco Plastics site, High Wycombe, formerly part of Thorn-EMI but now owned by Thomsons, the French electronics company, expires at the end of the week.

The union gave the company notice of its withdrawal from the agreement earlier this year after a TUC disputes committee ruled that the agreement breached the Bridlington Principles covering inter-union relations.

The TUC instructed the EETPU to co-operate in a joint approach to the company with Tass, the manufacturing union, and the AEU engineering union, to win joint recognition rights.

Many will see the attempt as a test case of whether TUC rulings ensuring joint recognition can be effectively applied, even with the co-operation of unions which signed the initial single-union agreement.

Leaders of Tass and the AEU will press ahead with plans to win the joint recognition agreement, backed by shop stewards at the plant who have urged workers to leave the EETPU.

Tass officials said that almost all the 200 workers at the plant have withdrawn from the company's "check-off" arrangements under which union subscriptions are automatically deducted from workers' pay packets and passed to their union.

Mr Larry Brooke, a Tass national official, said that most of the workers have written to the EETPU formally resigning. He accused the company of attempting to dissuade workers from joining Tass or the AEU by saying that the company would never recognise either union.

The company has said that it wants to continue with a single-union agreement with the EETPU.

Mr Brooke said that in spite of the company's position the EETPU had complied with the TUC ruling.

Mr Jack Wyman, an AEU national official, has written to the company asking for a joint meeting. The union plans to take its case to the company's owners should a local approach fail. Mr Brooke said that the unions would also call on the help of European unions to press their case.

The dispute over recognition at the plant arose after the company transferred production there from a plant two miles away, where most of the workforce were members of either Tass or the AEU.

The EETPU signed the sole recognition agreement after six of its members transferred to the plant from a sister factory at Gosport.

do not take account of the enormous growth in income film companies have earned from reselling feature and special films to network television companies, cable and satellite television or distributed on video cassette.

Under the agreement, independent television companies are covered by an agreement which ensures payments for repeats, the union fears that this will be undermined by plans to re-allocate 1,200 hours of BBC and ITV production to the independent sector. These moves will result in a significant deterioration in payments to freelance producers and directors, the ACTT said.

NUM votes to continue ban on overtime

By Philip Bassett, Labour Editor

LEADERS of the National Union of Mineworkers yesterday effectively outflanked attempts by hard-line sections of the union to hold a special NUM national conference to reinforce the union's overtime ban.

Senior NUM officials were ready at a meeting of the union's national executive committee in Brighton to propose that the issue of the union's industrial action over British Coal's disciplinary code should be decided at a conference on October 23.

Given the dominance in the conference of the union's Yorkshire area, which with a number of other regions is pressing for the action to be fully prosecuted and stepped up, putting the industrial action to a delegate conference would be likely to reinforce it.

This would have drawn full support for the action from NUM areas such as South Wales and Scotland, where the overtime ban is having its greatest effect. However, these areas also have serious reservations about the ban because it could increase the likelihood of British Coal moving towards further pit closures.

Yesterday, though, the executive voted by 13 votes to nine to continue with the present action, and to report on its progress at the next executive meeting on October 6, and at subsequent meetings.

Yorkshire miners urged making the ban more effective by stopping colliery maintenance at weekends, though maintaining safety cover.

The area's miners are to meet on October 22 to consider prosecuting the action more strongly. But because the executive decision on the present action had already been taken, the motion for a delegate conference from Mr Arthur Scargill, NUM president, and the union's other national officials, was not put.

Mr Scargill said that it was not yet known what the full effects of the ban were, though he accepted that it was having a greater effect in some areas than in others.

Grimsby may try to avert dock strike

BY JIMMY BURNS, LABOUR STAFF

LABOUR-LED local authorities in Grimsby may try to defuse the threat of a national dock strike arising from the likely closure next month of the Grimsby Dock.

The latest move follows the Government's decision earlier this month not to help the Grimsby Dock Company's move away from the "jobs-for-life" National Dock Labour Scheme.

The company has since indicated that it will militarily decide to use the Temporary Unattached Register to introduce a form of casual labour involving the 60 fish "tumpers".

The Transport and General Workers Union, which accepts the use of the TUC only in disciplinary cases, warned last week that such a move could spark off a national docks strike.

Grimsby Dock Company said at the weekend that it welcomed the idea of a new company taking over its operations if it could prove itself competitive with neighbouring Hull where local fish "tumpers" are not part of the National Dock Scheme.

The company confirmed that it would almost certainly cease trading next month at the end of the main fishing season.

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Peter Riddell on the ideological war of words within the Labour Party Taking the flak on modernisation

UP AND DOWN Brighton seafarers yesterday Labour activists and journalists could be seen clutching multi-coloured leaflets and pamphlets, scurrying from one fringe meeting to another - all packed and concerned with debating the party's future strategy.

After the Fabians late on Sunday evening, there were in succession - and not on any left-right spectrum - the Campaign for Labour Party Democracy, Solidarity, the Labour Co-ordinating Committee, Labour Briefing, and Labour Left Liaison.

The speakers overlapped and by last night Mr Bryan Gould and Mr Ken Livingstone had each spoken four times, though only once on the same platform. Their rival candidacies for a place on the constituency section of the national executive symbolised the debate this week over Labour's future.

Mr Gould, a respected but largely unknown junior spokesman a year ago, has become the centre of that debate. To the hard left he is a bogeyman. There were disparaging references to his views on wider share ownership in almost every speech at one fringe meeting yesterday.

Yet to the leadership, Mr Gould's advocacy of modernisation is the key to the policy re-appraisal. He clearly has the blessing of Mr Neil Kinnock, the party leader, who has himself kept an unusually low profile in the past week Mr Gould has been the "point man" taking the fire.

By yesterday morning it looked as if Mr Gould might be overreaching himself. His revisionist talk about the virtues of share ownership and his reference to "superpowers" being "a proper socialist objective" raised a number of eyebrows, and not just on the hard left. There has, of course, been an element of personal rivalry



Bryan Gould: talk of 'upward mobility' caused resentment

and jealousy, given his very rapid rise.

Nevertheless, at an afternoon meeting of the Labour Co-ordinating Committee, Mr Gould very obviously sought to answer his critics and offer reassurance.

Mr Gould, speaking on a questioner at a meeting of the Child Poverty Action Group the previous evening, he stressed that his views did not mean "greed coming before need. He went on to deny that he was proposing "a bonfire of commitments and principles."

Instead, he stressed his belief in equality and redistribution, public ownership (particularly for monopoly utilities) and in a non-nuclear defence policy.

He made clear his belief that broadening share ownership was intended principally to enhance employee interests and to democratise pension funds against the interests of the City.

It was, he argued, a question of leadership. Thatcherism, rather than constantly defending the status quo.

This approach did not satisfy even some of his usual allies. Mr Robin Cook, whom Mr Gould replaced on the shadow Cabinet a year ago, remarked after his speech that "I've tried it with water and with ice, but I still find a difficulty swallowing wider share ownership."

Earlier, Mr Roy Hattersley, party deputy leader, while repeatedly professing his agreement with Mr Gould, noticeably put much more emphasis on ideology and the need for principle than on pragmatism. And in a BBC interview he said he was sure that Mr Gould's talk about share ownership applied to workers taking a stake in their own companies, since owning shares in other concerns was not socialism.

Labour's nuclear disarmament stance could become a casualty of the party's total review of policy in the wake of the party's third successive election defeat, it emerged today.

Mr Neil Kinnock, speaking on the BBC TV Panorama programme to be transmitted later today, said it would be "even less advisable than usual to absolutely screw in attitudes and

say that they are utterly permanent fixtures."

"The permanent fixture is the need to defend our country properly, the need to be effectively allies and the need to meet those duties."

THE MONDAY PAGE

The EMS: an economic Maginot line



JOHN PLENDER

WHEN ALMOST every one except Mrs Thatcher is in favour of Britain becoming a full member of the European Monetary System (EMS) it

is surely time for the Monday Page to indulge in a modest outbreak of Thatcherism. It could just be that the EMS is the wrong solution to the wrong problem and that full membership might be rather damaging to Britain's economic health.

The economic case for full membership rests heavily on the notion that by joining the exchange rate mechanism Britain would bolster its medium-term strategy against inflation. In place of money supply targets, long since discredited, we would have that unflinching guardian of monetary rectitude, the Bundesbank, standing as guarantor against Britain's supposedly endemic propensity to generate double-figure rates of inflation. The British population could then sleep safely at night while British manufacturers enjoyed stable exchange rates and, other things being equal, lower interest rates.

All very enticing. And certainly it would make sense to

become part of a D-mark bloc if double-figure inflation were a serious worry and if these expectations of the EMS stood any chance of being realised. But is it and are they?

Much of the recent weakness in world bond markets reflected fears that a 1970s-style oil and commodity price upsurge was imminent—a curious concern, given the less than buoyant state of world demand. In the event the boomlet proved temporary. The fact is that inflation in the 1980s is not so much a global threat as a nagging problem for countries with weak currencies and trade deficits. For the United States, with its huge burden of debt, and a presidential election looming, it provides an all too obvious adjustment mechanism when policy is

frustrated. Many economists cheerfully lump Britain into the same category. But this is a gross over-simplification. Thanks to North Sea oil, it is sitting on a mountain of external assets in a world of free flowing capital. This ought to mean—pace the stock market after last week's trade figures—that Britain can expect to grow without balance of payments constraint.

While wage inflation has been running at 74.8 per cent, this has largely been offset by productivity increases. So Britain's export sector has not yet seen any dramatic decline in its overseas competitiveness after last year's sterling devaluation, because the serious inflation is confined to asset markets such as housing and to services.

In fact, it is remarkably easy to paint a scenario in which Britain is uniquely placed to maintain a competitive exchange rate and enjoy non-inflationary growth. Its industrialists are more confident than they have been for decades. There is a huge pool of underused labour available. The Government has responded to signs of overheating well in advance, but without over-reacting. Does anyone seriously believe that Mrs Thatcher will provide over a new inflationary spiral? Only the stock market analysts, whose determination to fight the inflationary battles of the 1970s could conceivably contribute to maintaining a competitive exchange rate against Europe, while dollar weakness helps damp down imported inflation.

The purpose of this column is not to set odds on whether this rosy prospect will come true, but to observe that full membership of the EMS—or over-enthusiastic shadow membership—could well make it impossible to achieve. Consider, after all, the case of France, for whom the EMS has disastrously failed to deliver a stable exchange rate, a dramatic reduction in inflation, or substantially lower interest rates.

As Mr Charles Gave, of the economic and investment consulting firm Coecog, points out, the average long-term interest rate in France over the past seven years has stood at 12.6 per cent, more than five points more than the West German equivalent.

French interest rates are twice as volatile as those of Germany. And after years of experience of the EMS, the markets now expect an average devaluation of the franc against the D-mark of more than 5 per cent a year. For the French, the EMS has been an economic equivalent of the Maginot Line, through which West Germany has exported deflation to the rest of Europe, while running a huge trade surplus, near-zero inflation and appealingly high real rates of interest. Does Britain really want to shackle itself to West Germany's dismal growth rate of around two per cent?

The recent changes in the exchange rate mechanism are supposed to put more of the burden of adjustment on the Germans. Yet the Germans

declare that they will not concede sovereignty over monetary policy, which casts doubt on it all. For in the absence of joint agreement on fiscal and monetary policy, a fixed exchange rate system is no more likely to produce mutually satisfactory economic results than a floating regime.

For Britain the EMS looks suspiciously like a draconian macro-solution to problems that call for micro answers. In other words a Tory Government should, as I argued on this page on June 1, tackle house price inflation through the housing market. The EMS arguably has much more to offer Labour, for whom inflation is a tougher nut to crack. But that, with many remaining caveats, is a story for another day.

INTERVIEW

A skilful run for the line

William Dawkins meets Peter Sutherland, European Commissioner for competition policy

PETER SUTHERLAND, Brussels executive has a conservative majority. It is no secret that he does not see eye to eye on state aid with Stanley Clinton Davis, the British Commissioner for environment and transport policy, though outside the politically heated corridors of the Berlaymont building, the two have been known to enjoy a game of golf.

The analogy is appropriate for a man who broke his nose nine times while playing for University College Dublin, where he was captain of the team. It refers to the way in which this increasingly controversial Commissioner, in charge of competition policy, stuns his opponents with shows of aggression, only to tie them up later in legal argument (skills which he learnt during training as a barrister). A good rugby team will often use a similar tactic: opening with a display of force and waiting until the opposing side is shocked and exhausted before trying a more strategic approach.

The story illustrates how this 41-year-old former Irish Attorney General, under Garret Fitzgerald's Fine Gael government, has taken the political high ground in enforcing European Community (EC) competition policy. His approach marks a radical change from the Commission's earlier, more flexible stance on state aid and anti-trust regulations, the two main areas where this policy is applied.

He has taken an unprecedentedly tough stance against all kinds of state aid, price fixing and market sharing and seized for the Commission a more rigorous role in shaping the Community's competitive landscape.

In the process, he has tackled—though not yet beaten—the costly price-fixing and capacity-sharing cartels of national airlines, imposed a record penalty on a polypropylene price-fixing cartel run by 15 of the EC's leading chemicals companies, forced the repayment of a record amount of illicit state aid in a decision against the FF 338m (£34m) paid to Boussac, the French textiles group, and is starting to put pressure on member states to adopt a Community-wide merger control policy.

All this has brought Mr Sutherland some notoriety. He has had several political clashes with the French Socialist, Jacques Delors, Commission President, who feels that the Irishman sometimes pushes competition rules too hard at the expense of jobs. Inevitably, Mr Sutherland's staunchly free-market views have brought him into conflict with left-wing Commissioners—although luckily for him the

Brussels executive has a conservative majority. It is no secret that he does not see eye to eye on state aid with Stanley Clinton Davis, the British Commissioner for environment and transport policy, though outside the politically heated corridors of the Berlaymont building, the two have been known to enjoy a game of golf.

While the controversy aroused by Mr Sutherland is partly to do with what some describe as his Quixotic personality, it is also a corollary of his job. His is one of the few areas where the Commission can take decisions which profoundly affect member states, even to the extent of taking them how they can spend their money without first having to consult national governments.

PERSONAL FILE

1946: Born April 25. Educated: Cozenga College, University College, Dublin and Honourable Society of King's Inns.

1968-1991: Practising member of the Irish Bar. Senior counsel 1980-1981. Attorney General of Ireland June 1981 August 1982 and from December 1982-December 1984.

1985: Appointed member of the Commission of the European Communities in charge of competition and relations with the European Parliament.

"It's about as close as you can get to touching the nerve of national sovereignty," he admits. But how far in this direction does he think he can go and what kind of competition policy does he envisage for the EC?

He is keenly sensitive to any suggestion that he is sending that policy against the tide. The Commission's tough stance on anti-trust enforcement has been shown only recently, for example, by its decisions to scrutinise the proposed merger of British Airways and British Caledonian and to press for an agreement on EC-wide merger control regulation.

Meanwhile, critics might argue, industrial logic points to the need for larger groupings. They can cite the Reagan Administration's relaxed stance on mergers, as reflected in the US courts' increasingly liberal view of some restrictive price controls. While less merger regulation across the Atlantic does not necessarily mean Europe should follow suit, it does at least beg the question of why Mr Sutherland appears to be nudging the EC in the opposite direction.

"Deregulation has become a sort of buzz-word of the right in European politics and brings about a knee-jerk reaction of capacity. That is the result of

antipathy from the left. But you can't fit competition policy into a discussion on deregulation because competition policy regulates in order to provide freedom for the entrepreneur to operate," he says.

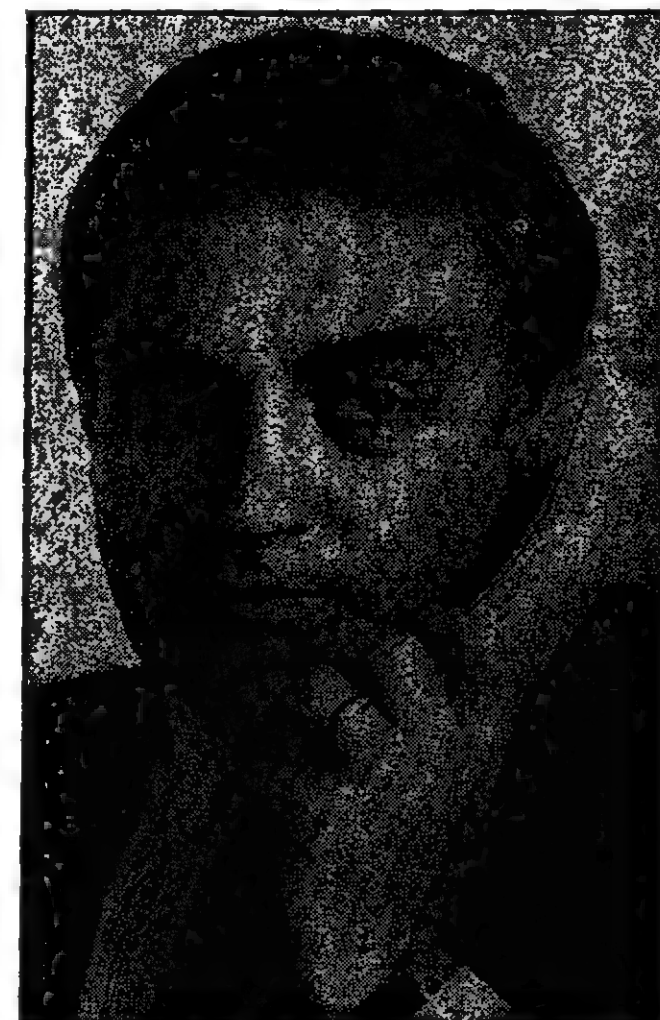
He maintains that US anti-trust authorities are, if anything, taking a harder line against potentially anti-competitive mergers, with a marked rise in the number of prosecutions. However, the attack has been on horizontal mergers where, for example, two producers club together to increase market dominance rather than vertical ones where the links are between manufacturers and suppliers or distributors.

But there is one key area where Mr Sutherland does not want to take European competition policy in the direction advocated by some US commentators of a similar political persuasion: he does not believe that market dominance by a few companies is a mark of efficiency.

One example is the car and truck industry, where the Commission took a positive view earlier this year on the proposed merger between DAF trucks of the Netherlands and the Rover Group's bus and truck division. It saw it as a much needed step towards strengthening a fragmented industry, despite the national restructuring aid being offered to the UK partner. Another is the investigation into the BA-BCAL merger, where Mr Sutherland says any Commission response will be guided more by whether smaller carriers get adequate access to the combined group's routes, rather than by the question of state aid.

But if there is one creed on which Mr Sutherland is unlikely to show flexibility, it is his antipathy to state aid—a policy which has raised more controversy than any other. "Either through state aid or through state monopolies, we have created whole sectors which have become—perhaps always—inefficient and a drain on state resources," he says.

The prime example is steel, where years of national protection have "created a monster, which has resulted in enormous personal difficulties for the 250,000 people who have already lost their jobs and the 80,000-plus who have yet to lose their jobs because of over-capacity. That is the result of



a failure in Europe to take on state aid and interventionism, and allowing national short-term considerations to dictate industrial policy."

Leaving aside the need to improve efficiency, Mr Sutherland sees a contradiction between allowing state aid to continue and the EC's attempts to create a genuinely free Community market by 1992. "It's self-evident that state aids have as big a distorting effect (on free trade) as anything placed by way of impediment on a border. This has to be a central facet of the present policy for the completion of the internal market," he argues.

In other respects, Mr Sutherland sees the development of the internal market—for all its practical problems—as having little influence on the general thrust of EC competition policy.

One specific and sensitive challenge will be how the Commission tries to ensure open competition in the fast-changing telecommunications industry, with its infrastructure dominated by national postal authorities. Rather than seeking to apply general EC competition rules—as in the case of his long-running crusade against airlines' restrictive accords—Mr Sutherland is examining the possibility of applying article 80 of the Treaty of Rome.

This would allow the Commission to tailor its competition regulations to the special circumstances of state monopolies, a largely untapped device. It would give the Commission the power to force monopolies to provide services of general economic interest—to comply with competition rules outlawing the abuse of dominant positions, on condition that they are not obstructed from performing their public tasks.

In the case of the airlines, a liberalisation package is be-

ing blocked by a row between Britain and Spain over the disputed territory of Gibraltar. With no agreement in sight, the Commission is taking legal action against individual airlines to force them to change their capacity-sharing and price-fixing agreements in line with EC competition rules.

The Commission is now mulling over replies from 10 leading European airlines to its demand that they should individually reform the more restrictive elements in their agreements. If the replies are unsatisfactory, the Commission can issue a so-called "reasoned opinion" laying out which aspects of the agreements contravene competition law, thereby opening them to legal action by customers.

All this invites the question of where Mr Sutherland feels the Commission's authority over competition law should stop and where national governments should take over. His opponents, especially among the West German state governments whose generous regional aids are the focus of a Sutherland scrutiny, argue that he is already trespassing too far on their sovereignty. Yet his supporters, most notably among consumers' associations, would argue that in the case of airlines and steel he and his colleagues have been too ready to compromise.

He believes the limit is simple to define. "The Treaty of Rome says we draw the line at anything that affects intra-community trade—and that is the only line we accept as an inhibition of our power."

About his personal ambitions he remains reticent. However, observers have tipped him for either a more senior post in the Commission, in January 1988, or a return to Irish politics. Meanwhile, he will be a force to be reckoned with in EC politics for some time yet.

Spycatcher: a new twist to the plot

SPYCATCHER continues to capture the legal headlines. The latest judicial pronouncement in the protracted litigation over the attempted banning of the publication of a book by one of the British Government's former secret service officers has provided an entirely new twist to the legal contortions. The majority of the Court of Appeal of New South Wales—chiefly in the shape of the reasoning of the court's radical and liberal president, Mr Justice Kirby—has held that the Australian courts cannot entertain the British Government's action. Sir Robert, the central point at issue has been whether the flood of material that has been seeping into the public domain, both here and abroad, has drowned any concept of confidentiality that attached itself to the uncovered secrets of MI6.

There has long been a rule in the English common law (in this respect inherited in its entirety by the Australian courts) that the court has no jurisdiction to entertain an action for the enforcement of a "penal, revenue or other public law." The rule reflects the principle of territorial supremacy, which is fundamental to the community of nations. What is claimable in one nation's courts may not find instinctive acceptance in another country's courts. Courts abroad will refuse to enforce any claim which, in their view, is a manifestation of a foreign state's sovereign authority. By the law of nations such claims are assigned exclusively to their domestic forums. How does this rule apply to the British Government's private law claim to remedy the breach by a Crown servant of his obligation never to reveal the secrets acquired by him in the course of his public duties?

Crimes are considered as entirely local and punishable exclusively in the country where they are committed. "Penal law" is a law which imposes punishment for an offence against the state. It is a criminal law and not merely a rule imposing liability on a wrongdoer, which is not limited to the damage suffered by his victim. Had the British Government's claim arisen out of an alleged breach of the Official Secrets Act, there would have been no question of the Government trying to enforce a breach of it against the publishers of Mr Wright's book in Australia. If Mr Wright and



his publishers had been in the United Kingdom, the suggested continuing claim to confidentiality could be readily enforced in the English courts. But from the central point at issue has been whether the flood of material that has been seeping into the public domain, both here and abroad, has drowned any concept of confidentiality that attached itself to the uncovered secrets of MI6.

Tax-gathering is not a matter of contract, but of authority and administration as between the state and those within its jurisdiction. As such, courts have never enforced foreign decrees of revenue laws. Laws, however, are recognised, although not enforced, and may be applied if relevant to an issue in the case. There has been, moreover, an inclination to modify the rule about non-enforcement of revenue laws. The liberal approach has been to acknowledge that, in the real world of international commercial activity, there is a need to move away from notions of sovereign authority.

The extension of "other public law" reflects much the same approach. It is envisaged as covering such topics as import and export regulations, trading with the enemy legislation, price control regulations, and anti-trust legislation. In practice, however, the important topics falling within this category are those which authorise governmental interference with private property, whether in the form of requisition, nationalisation, or confiscation.

Given the liberal trend to whittle away the nationalistic element in the rule of non-enforcement, how did Mr Justice Kirby come to apply the rule in its full vigour? The judge acknowledged that there was no point in having a security service if it could not guard its secrets at least in some cases and for a period of time, if not

indefinitely. That no doubt merely explains the motives of the British Government in bringing its proceedings in Australia. But it also helped, according to Mr Justice Kirby, to classify the nature of the legal proceedings.

The rule of non-enforcement of penal or other public laws operates against the direct and the indirect. And this case, so the argument runs, was an indirect enforcement of a penal law—the Official Secrets Act. The case was not that of a private claim by an ordinary foreign litigant to enforce against Mr Wright as a person breaching a private law duty of secrecy. It constituted, in effect, an impermissible effort by the British Government to exert its power to preclude the Australian courts from entertaining the British Government's action. The persistent disavowal by the UK Government of any question that it was seeking to enforce, directly or indirectly, its penal laws—the Official Secrets Act or any other part of its criminal or public administrative law—speaks volumes. The Government stated unequivocally that it was pursuing the claim of any employer to prevent its employees breaching the trust reposed in the latter. The trust happened to be the ultimate in confidentiality, namely state secrets. Indeed, in the course of his judgment in the English proceedings to discharge the interim injunctions granted to the Government, the vice-chancellor, Sir Nicolas Browne-Wilkinson, stated specifically that the difficulty posed for the Government was the lacuna in the law, outside the Official Secrets Act, to protect its secrets in the civil courts by way of a private claim.

The High Court of Australia, the final court of appeal for that country, will this week decide whether to grant the British Government leave to appeal. If the new tack adopted by the New South Wales Court of Appeal demands further review, the British Government will feel no doubt encouraged that its defeat on this score gives fresh hope for ultimate success.

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From these, a selected short list of developers will be asked to submit proposals. All expressions of interest including the identity of proponents will be held in the strictest confidence, and should be addressed as follows:

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APPOINTMENTS

Lloyds Bank general manager

Mr Sydney Shore has been appointed general manager, corporate banking, at LLOYDS BANK from October 1. Mr Shore, who joined the bank in 1989, served initially in Essex and London and had a number of managerial appointments in central London before setting up the bank's business advisory service in 1976. After a period as manager of Colmore Row, Birmingham, he became regional general manager, West Midlands in 1981. He has held his present post as assistant general manager, corporate banking division, since 1983.

MANN EGERTON has made changes in responsibility at board level: Mr Michael Gada remains as deputy chief executive, a role he previously combined with finance director. He will concentrate on developing the Mann Egerton portfolio of businesses, through acquisitions, new franchise representation and new facility investments. Mr Brian Beck has been appointed finance director. In addition to his current role of company secretary, Mr Paul Reynolds joins the group as managing director of Gerard Mann, Mann Egerton's Mercedes-Benz passenger car and commercial business located in Birmingham and Coventry. He was previously with the Lex Motor Group where he ran companies with volume and specialist car franchises.

D.CARON, recently appointed deputy chairman and member of the Caradon main board.

DOMINO PRINTING SCIENCES has made the following organisational and management changes following the acquisition of American Technologies Inc. The operating companies of the Domino Group are: Domino Amjet Ltd, Domino Amjet Inc, Domino Amjet BV and Domino Printing Systems Vertrieb GmbH. Mr Alan Barrell, group managing director, becomes chairman of each of these subsidiaries and heads the group management board comprising the following appointments: Mr Roger Dye, formerly financial planning and control director at Trust House Forte Hotels, replacing Mr Andrew Irwin who has left the group; Mr Howard Whitesmith, managing director of Domino Amjet Ltd; Mr Richard Leach, president of Domino Amjet Inc; Mr Jürgen Klingler,

managing director of Domino Printing Systems Vertrieb; Mr Coert van Ee, managing director of Domino Amjet BV; and Mr Selwyn Image, divisional director, group planning and development.

At QUEENS MOAT-HOUSES Mr Robert Abson has become operations director UK and joined the main board. He was operations director.

The JIFFY PACKAGING CO has appointed Mr Alan Johnson as its sales director. He was sales manager for the northern division of Ambassador Packaging, another group company.

CANADA LIFE has appointed Mr Ian Gunn as vice president and general manager for the UK and Republic of Ireland. He has been the investment director of Canada Life in the British and Irish divisions for the last five years, but has latterly assumed responsibility for corporate planning in the division.

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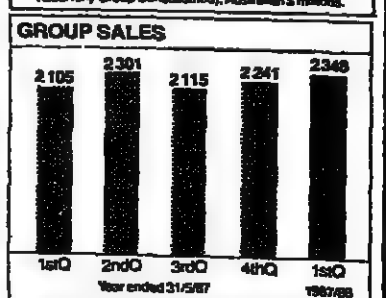
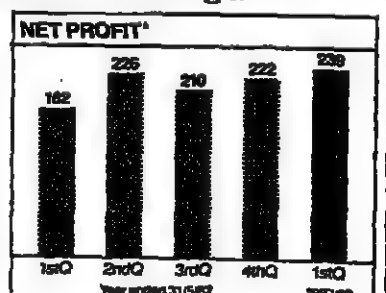
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For the quarter ended 31 August 1987 BHP is pleased to announce a net profit of A\$239.1 million (up 31% on the same quarter last year) on worldwide sales of A\$2.3 billion (up 11.5%).

The November half year dividend is fifteen cents a share fully franked, meaning that, for non-resident shareholders the dividend will be free of Australian withholding tax. This compares with the 14.6 cents a share paid on a bonus-adjusted basis in November, 1986, which was subject to the withholding tax.



This result, achieved in a very competitive global marketplace, once again illustrates the Company's strengths—quality assets, strong management, and successful long term growth strategies.

For further information, please contact
Dr. C. B. Belcher, Investor Relations Dept., BHP, 33 Cavendish Square, London W1M 9HF.

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Mixed bag for Crown House

CROWN HOUSE ENGINEERING has received 15 mechanical and electrical engineering contracts valued at £20m. They include two large projects, each worth well over £5m, one an electrical engineering services installation contract for Marks and Spencer's new data centre at Stockley Park, the other a mechanical and electrical services contract for Gratian's new warehouse in Bradford.

The awards also include three contracts for leisure and entertainment complexes with a total value of £4.2m for Doncaster Leisure Park, the Aberdeen Leisure Centre and Cameron Hall Developments/Fantasyland, which is an extension of Tyne-side's Metrocentre.

The remaining 10 projects, totalling over £10m, cover a variety of office developments, shopping complexes, hotels, computer production facilities and hospital extensions.

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CONSTRUCTION CONTRACTS

£24m coal preparation plant

A joint venture between DAVY McKee and CEMENTATION CONSTRUCTION (a member of the building and civil engineering division of the Trafalgar House Group) has won a contract valued at about £24m for a new coal preparation plant at British Coal's Maltby Parkgate mine.

The project comprises the design, manufacture and installation for the plant and coal handling systems, including all civil works, mechanical and electrical engineering systems. Prior to completion, which is scheduled within 96 weeks, the plant will undergo full commission-

ing and testing.

The works cover four principal areas of operation. The first, a raw coal handling facility allowing for pre-screening, stocking, reclamation and other handling facilities for raw coal from shaft side to the coal preparation plant. The coal preparation plant itself, the second main operation is designed to handle a number of processes which include dense medium, large and small coal separation, froth flotation, clean coal concentrate filtration, water clarification, tailings disposal, clean coal classification and product crushing and blending.

Thirdly, a control annex which will contain all electrical switchgear and controls. This detached building also houses a central control room and staff amenities areas. The fourth operation - a product handling system - will provide facilities to outload saleable products to road, rail or to stock. The structural work includes all the interconnecting gantries. Certain works will also be carried out for alteration of the existing rapid loading bunker to facilitate the unloading of CEBG fuel from the coal preparation plant and/or from stock via the bunker.

£4m orders for Booth

North Humber-side-based civil and engineering contractors C.E. BOOTH has order books running at record levels. Major contracts, particularly civil engineering schemes, have pushed its current work in progress over the £4m mark. Projects include a wharf scheme for Croda Palms, a refracturisation building for Anglia Oil, the Cockmoor service reservoir for the Yorkshire Water Authority, a pedestrianisation scheme of Hull City centre and Humber Dock Side/Hull Marina for Hull City Council, factory estates at Winterton for English Industrial Estates, road and sewer work in Hull, Bridlington, Howden and Beverley, for private developments and school refurbishments for Humber-side County Council.

M.J. GLEESON GROUP has been awarded a £11.5m contract for the design, development and construction of servicemen's homes at RAF Leeming, near Northallerton, Yorkshire.

Office development in City of London

A £10m contract for the construction of a seven-storey office building part of an existing facade in King William Street, London EC4, has been awarded to TAYLOR WOODROW CONSTRUCTION by Ropemaker Properties.

The project entails constructing the shell and core of a 17,450 sq ft metre building without internal finishes. The structure will have a mezzanine and lower ground and basement levels, as well as a glazed internal atrium from the third floor to the roof.

The building will be of structural reinforced concrete up to ground level with a structural steel superstructure. The exterior fronting onto King William Street will be faced in Portland stone to blend with the partially retained facade. Other external walls will have a combination of granite and aluminium cladding. The work is scheduled for completion in February 1989.

Bypassing Newbridge

EDMUND NUTTALL has received a £3.38m award from the Welsh Office to construct the A48 Newbridge bypass. The two and a half year contract will commence on October 5.

The main structure on the 3.5 km bypass is the 348 metre long five-span viaduct over the River Dee. The viaduct piers of maximum height 50 metres are of in-situ reinforced concrete and are founded on spread footings in deep excavations in the sides of the Dee Valley. The deck is an in-situ post-tensioned concrete box construction built by the balanced cantilever method.

There are four other structures: a 40 metre span double cell post-tensioned concrete deck with cantilever abutments and two firm underpasses comprising reinforced concrete boxes 4.5 metres wide by 4.25 metres high.

In addition to the 3.5 km of single 7.5 metre carriageway for the main bypass the roadworks involve about 1.8 km of single 7.5 metres wide carriageway linking the bypass with the existing A5 trunk road.

Improvements to existing roads are required at Black Park Road and Low Barracks

Road. The works include two at grade roundabouts, one priority junction and, at the northern end of the project, a connection to the Wynnstay junction which has been constructed as part of the Rhabon contract.

The route of the bypass and the Whitehurst link road passes over an area of previous mining activity and ground stabilisation works to treat abandoned mineshafts and shallow mine workings, and other measures concerned with minimising settlement in the area of a backfilled opencast mine, are also included in the works programme.

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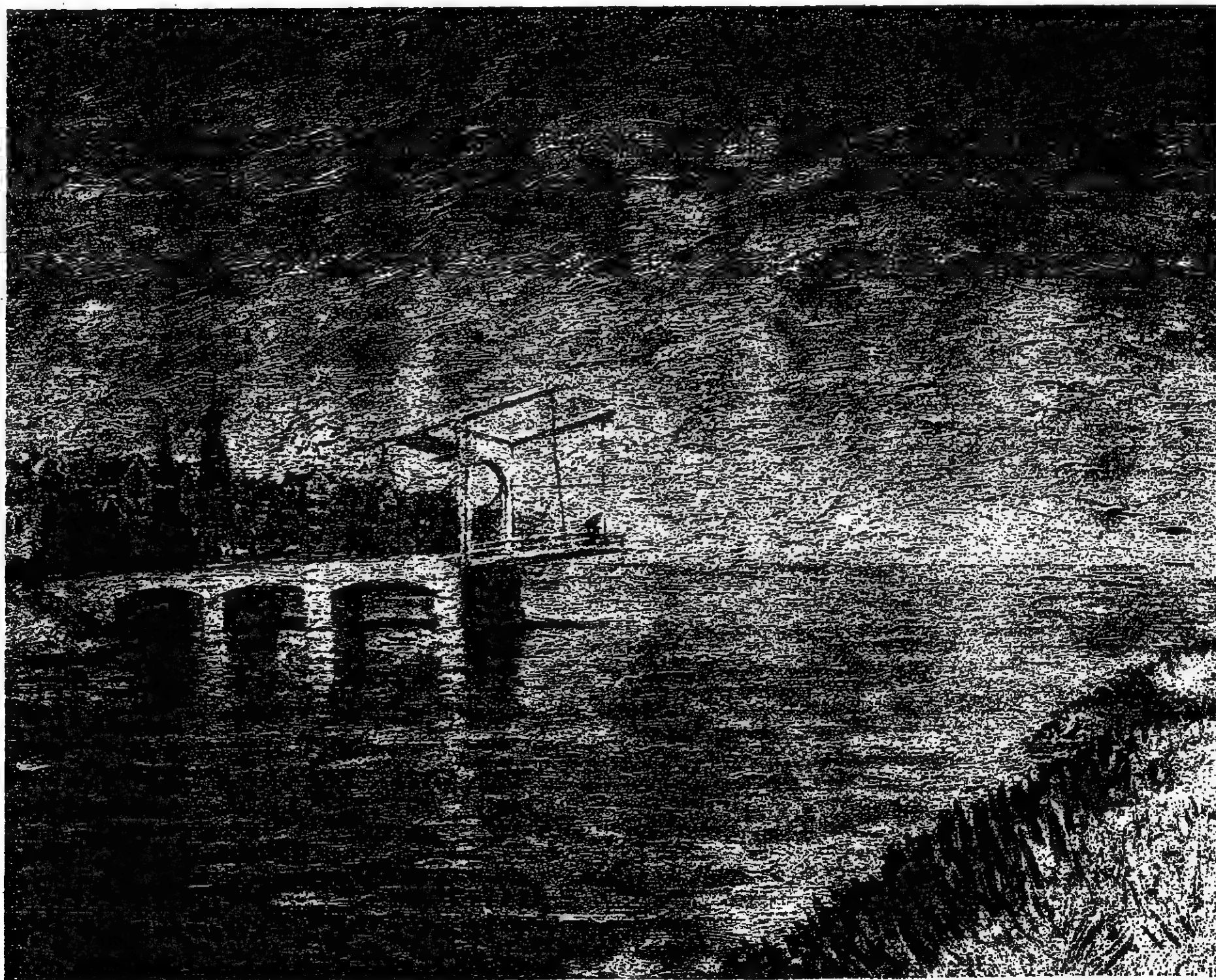
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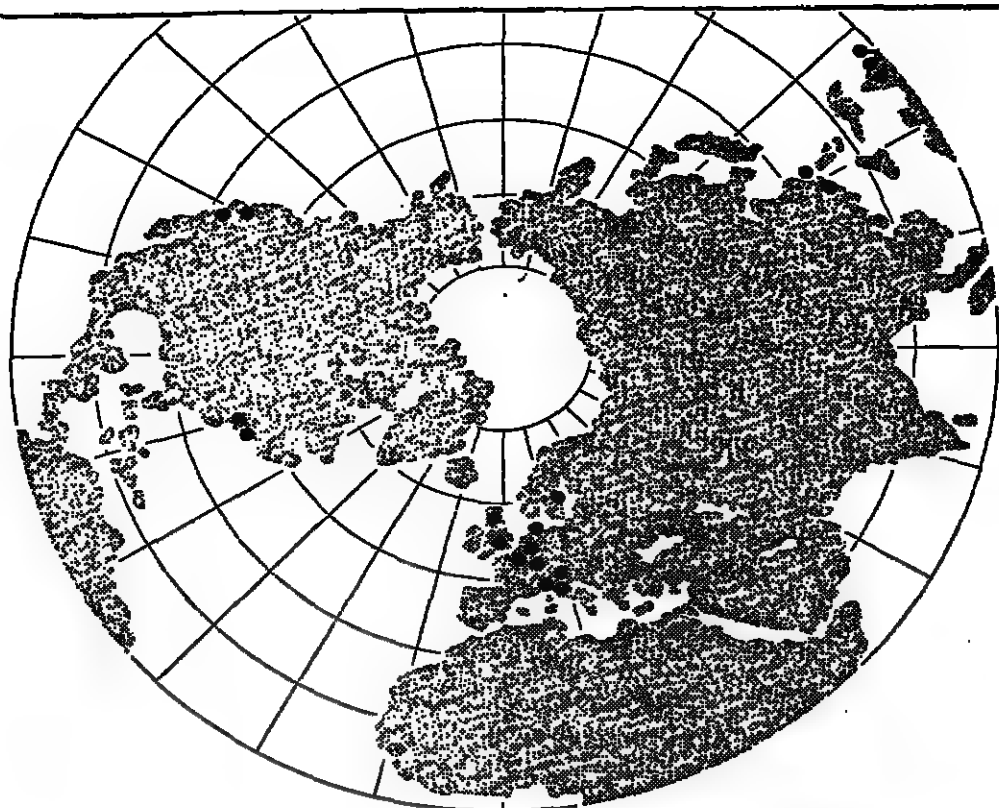
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THE IVORY COAST

Houphouet-Boigny's 'Ivorian miracle' challenged

Testing time for democracy

BY NICHOLAS WOODSWORTH IN ABIDJAN

IN ONE of the few significant challenges to government authority during his 27-year rule, President Houphouet-Boigny of the Ivory Coast last week made it clear that his country is not yet in a position to accommodate the rough-and-tumble of multi-party opposition politics.

"Do not make us choose between disorder and injustice..." the 82-year-old leader said last week in the semi-official govern-

ment daily "Fraternelle Matin."

"I will not hesitate to choose disorder. One always has the time to redress an injustice, but when disorder takes over it is the life of the regime, the life of men, that is at stake."

The stiff pronouncement follows the arrest earlier this month of union leaders for the alleged embezzlement of union funds. The real significance of the case, though, lies in the limits it defines to political activity in the Ivory Coast.

The Head of State has used the occasion to make a public affirmation of the nature of Ivorian democracy and warned that any threat to it would be severely dealt with.

"The PDCI (Democratic Party of the Ivory Coast) is the framework in which all Ivorians, as long as there is only one party, must evolve," the President stated.

"In the future, there will perhaps be several parties, as is provided for in the constitution, but the precondition must first be realised: national unity."

Any tendency in the opposite direction would be corrected. "There are those who wish to constitute themselves as a state within the Ivorian state," he said. "This is very serious. They shall be punished."

Such strong words are not often pronounced in a country seen by the world as a model of stable and peaceful Third World development. From 1980 until the recent severe slump in the price of its major exports, coffee and cocoa, the Ivory Coast has pursued a course of uninterrupted growth under the tutelage of its former colonial master, France. By its policy of

attracting foreign advisers, investment and loans it has achieved a living standard that has made it the envy of its neighbours.

But the "Ivorian miracle," as it is sometimes called, has had as preconditions to success not only foreign economic domination but an unquestioning obedience to the political programmes of Felix Houphouet-Boigny and the party he founded in 1946.

"Dialogue" and "consensus" are the key words in political life here, and rare is the congress address or policy statement in which they do not figure prominently.

No such words were pronounced in July at the 15th congress of SYNESCI, a national secondary school teachers union, and one of the few non-government-backed unions in the country.

SYNESCI has long been a thorn in the side of government. Until July a model of everything a public body in Ivory Coast should not be, it has over the years provoked considerable anger without actually doing anything it could be punished for.

While its often strident demands for more funds, more teachers, and more facilities have at least been tolerated by government in the past, it has of late proved itself particularly irksome by its call for the reform of a policy which

permits only 5 per cent of students entering secondary school to qualify for university entrance.

SYNESCI sees such a reform as a move that would allow less privileged sections of the population greater opportunity. The Government, on the other hand, can only think of the effect of such a policy on its plans for future economic and political stability. The prospect of large numbers of unemployed university graduates—perfect candidates for leftist activism—is not one the Ivorian Government likes to contemplate.

Balla Keita, Minister of Education, made the message clear last year when he warned SYNESCI members not to allow classrooms to become "laboratories for destabilisation."

SYNESCI was effectively muzzled in July when dissident factions within it removed its executive council from power by a political sleight of hand.

According to its former secretary-general, Laurent Akoum, now in prison, SYNESCI was the object of an illegal takeover condoned by the Government. In his version of events, the congress was physically disrupted by a pro-government union faction which forced its suspension.

After the executive had departed, he claims, this same group voted itself into power. Government approval was later implicitly given by the attendance of eight ministers at the

closing ceremony.

To prevent the new executive from taking immediate control, Akoum appropriated union property and funds. The new executive replied by filing an embezzlement suit against the old leadership, and since then the matter has become an affair of state.

Buffeted by the winds of economic reversal, by plunging commodity prices and an unpayable \$8.4bn debt, Felix

'Our country has a sense of measure'

Houphouet-Boigny remains nonetheless calm and in full control in the last years of his reign. He is confident in the face of this latest threat. "We will see what happens," he said. "Our country has a sense of measure."

Despite mediation attempts by the African Association of Jurists, the imprisoned leaders, who claim to have the continued support of the better part of SYNESCI, have vowed to fight to the end. Their trial, and the possible disruption to the beginning of the school year next month, threaten to give Ivorian democracy one of its severest tests yet.

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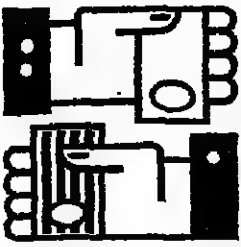
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FINANCIAL TIMES SURVEY



Franchising faces a more optimistic future than was the case a year ago. The threat of unwelcome EC

legislation has receded, and the industry's main trade body has set about putting its house in order after spectacular collapses. Survey by David Churchill

Growth and a cleaner image

THE UK franchise industry can look forward to next month's National Franchise Exhibition at the Kensington Exhibition Centre in West London than was the case a year ago.

At that time, the industry was still reeling from the shock induced by the collapse of the Young's Franchise Group and the poor publicity for its La Mama fashion franchise operation. The Young's debacle (although it is now trading normally under new owners) seemed to leave the British Franchise Association - the industry's main trade body - uncertain of how to cope with the industry's problems.

As if this were not enough, hanging over the whole franchise movement was the legal uncertainty caused by the European Community's competition rules which could have severely hampered franchising's growth.

Not surprisingly, the problems facing franchising a year ago were causing concern in Whitehall and civil servants were exploring with ministers the possibility of legislation to improve franchising standards.

But now the outlook for franchising is far more optimistic. There have, for example, been no further spectacular collapses to mar franchising's image. The BFA, moreover, has

acted in a number of key areas to get its own house in order - largely through tighter controls of members and a new code of ethics - as well as making new efforts to represent individual franchisees and not just franchise companies.

The European Commission has also made its long-awaited ruling in favour of the existing franchising format in Europe - and the UK Government appears to have backed off for the moment from bringing in new legislation to protect franchisees.

It would be wrong, however, to suggest that franchising in the UK remains without problems. The growth of the sector in the 1980s clearly continues to attract companies which have neither the commitment nor the resources adequately to franchise their business.

Nor is franchising immune from attracting the crooks of the business world and, unfortunately, these people seem to find a ready market in individuals willing to part with their savings to take up a rather dubious franchise operation.

"Investors should be aware of the hype surrounding the now fashionable franchising industry," warns Mr Andy Pollock, franchising manager at accountants Arthur Young.

"They should not rush into a

franchise but should take the same level of advice and use the same criteria that they would for investing in any new business."

Mr Tony Duffield, director of the BFA, also points out that "obviously some people are not suited to running their own business but I don't think the percentage of unsuitable candidates is dramatically different than in the past."

The BFA's strategy is to ensure that prospective franchisees evaluate for themselves whether they are well-suited and have the qualities it takes. "This goes back to the education process and is exactly why we are so committed to exhibitions, seminars, and conferences which can spell out to people exactly what is entailed."

What exactly is franchising? In one form or another it has existed for centuries (the brewers' tie was an early form of franchising) but now it is the "business-format" type of operation which is most commonly associated with franchising.

Business-format franchising as a concept originated in the US and includes not only a trade name but a complete marketing policy, including packaging, design of shops, and other promotional support.

Franchising is not an easy concept to define. The BFA's definition of franchising says it is "a contractual licence granted by one person (the franchisor) to another (the franchisee)."

This licence, says the BFA, "permits the franchisee to carry on a particular business un-

der a specific name belonging to or associated with the franchisor."

It entitles the franchisor to exercise control during the period of the franchise over the manner in which the franchisee carries on the business.

It obliges the franchisor to provide the franchisee with assistance in carrying on the business.

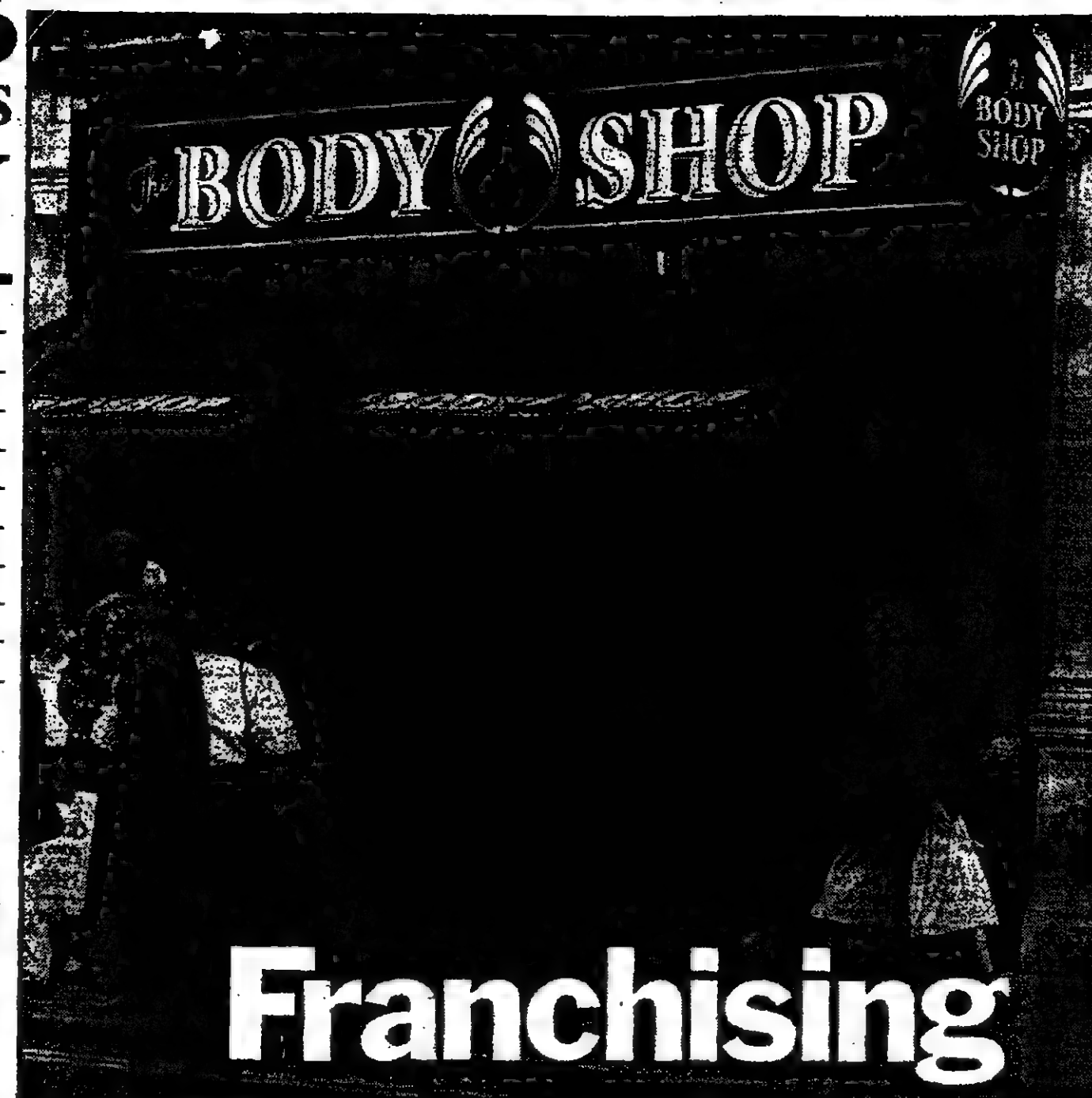
It requires the franchisee periodically, during the period of the franchise, to pay to the franchisor sums of money in consideration for the franchise, or for goods and services provided by the franchisor to the franchisee.

Accurate statistics on the size of the franchise market have not in the past been readily available. However, last year

the BFA and National Westminster Bank sponsored a special survey - carried out by Power Research Associates - which indicated that franchising is now big business.

The franchising industry should get its rightful credit as a strong contributor to wealth and employment creation in the UK with over 93,000 full-time jobs created and total sales from franchising outlets in excess of £2.2bn, says Mr Desmond Cook, chairman of the BFA. Total employment in franchising, including part-time workers, is 150,000.

This represents a growth of over 400 per cent in turnover and 180 per cent in employment over the past five years and gives projected sales of £2.5bn by 1991.



Body Shop has become the most successful British retailer abroad. Its route to growth has been through franchising - see p2

Franchising

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Advantages for companies Body Shop is typical of the way in which franchising has enabled many companies to expand

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Financing Banks are now happier to lend

The Risk One woman's story of how she set up in business

British Franchise Association Updating the ethics code

An updated report from Power Research is due to be published tomorrow.

The BFA's Mr Duffield, however, is reluctant to overstate the growth of franchising. "Progress is steady and on course to grow in line with our estimates," he says. "On the one hand I wouldn't say it was going away like a rocket but, equally, it would be fair to say that it is maintaining its momentum."

The UK, however, is still some way behind the US and other European countries in its commitment to franchising. The US has seen a particularly rapid growth in franchising over the last 30 years, so that now over a third of all retail sales are carried out by the franchising method. Total sales through franchising in the US are estimated at \$94bn, compared with £11bn in Canada and \$6bn in France.

The Power survey last year revealed that the UK had some 440 business format franchise systems, with an average number of franchised units per system of 45. Average annual sales per franchise unit were £113,000.

Spurring on the growth of franchising in the 1980s has been the changed economic and political climate. "The present economic and political environment has created the mood for individuals to try out their entrepreneurial skills by starting up their own business," points out Arthur Young's Mr Pollock. "This means that any company looking to expand will find that the franchising option is viable because there are so many willing and able franchisees."

Growth in franchising has been encouraged by two other factors. One has been the change in life-styles which has prompted increased demand for companies offering service and convenience - such as the new US-style convenience stores which are ideal for franchising.

The other factor has been the greater involvement of the clearing banks and other financial institutions to provide not only funds but specialist advice to both franchisors and franchisees.

Mr David Acheson, a former chairman of the BFA and now a franchising consultant with the Stoy Hayward accountancy firm, also believes there is greater realism among companies who want to expand through franchising.

"They have to realise, however, that it's not a short-term option but something which will affect their whole company in ways in which they may not realise at first."

But he points out, senior executives are coming to see franchising as one marketing and financial option in their expansion plans. "We don't say that the only way is franchising," he says. "We look at the company's needs and options and it may be that they would be better off raising finance on the stock market rather than going via the franchise route."

Mr Acheson is a member of the Franchise Consultants Association, a body set up, among other things, to help weed out people calling themselves consultants who try to find franchisees for franchise companies. Both the BFA and the FCA are fundamentally opposed to the sale of franchises by intermediaries. "The only way in which franchisees should be sold is by the franchisor himself by direct discussion and negotiation with the franchisee," says the BFA and FCA in a joint statement.

Another area of concern that has been overcome in the past year has been the attitude of the European Commission in Brussels. The EC decided earlier this year that franchising could be exempted from certain aspects of the competition rules in the Treaty of Rome. Draft regulations from the EC mean that franchise agreements, with some exceptions, cannot now be challenged under EC regulations outlawing market sharing and price fixing. The move has been widely welcomed throughout Europe's franchise industries.

Optimism, too, has been generated by the number of new companies which are beginning to consider franchising. "More and more companies operating in traditional forms of business such as Bally Shoes, Clark's, and Sketchley are entering the franchising arena," points out Mr Duffield from the BFA.

The Abbey National building society, moreover, has plans to franchise its Cornerstone estate agency chain next year. Other major UK companies, especially in the catering sector, are expected to announce large-scale franchise ventures within the next few days. The 14,000 estimated visitors to next month's National Franchise Exhibition will have plenty of food for thought this year.



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P R E S S F O R A C T I O N

FRANCHISING 2

How to decide whether to go for a franchise

First ask some searching questions

THE TYPICAL would-be franchisee is male, aged around 40, has been employed in a white-collar job, and used mainly personal savings to finance his first franchise operation.

That picture, while accurate according to the relatively meagre research into what comprises a franchisee, can still be very misleading. Franchising in the 1980s has caught the imagination of many would-be entrepreneurs as the 'safe' way of running their own business. This means that there are people from all types of backgrounds and aspirations who have joined the franchise system in recent years.

It is quite possible that as many as 50 per cent of franchisees would not otherwise have become self-employed were it not for the franchise format, points out Professor John Stanworth, director of the small business unit at the Polytechnic of Central London.

Franchising offers most of the advantages of running your own business, such as independence and job satisfaction, without many of the drawbacks which result in such a high failure rate for small businesses. Franchise operations clearly fail as well, although the rate is said to be less than that for business as a whole.

Moreover, taking on a franchise with one of the more reputable and well-established franchise operations, and raising finance through a clearing bank, usually makes the potential risk less. Neither the banks nor established franchisors want their franchisees to fail, so their screening procedures tend to weed out those unsuitable as fairly rigorous and are becoming increasingly sophisticated.

But they are not foolproof, as the failure of several franchise operations over the past couple of years have shown. The most spectacular of these was the collapse of the Young's Franchise Group, significant because it was run by a former chairman of the

British Franchise Association. (Young's was subsequently bought by Mr Cyril Spencer and is now trading normally.)

The Young's collapse sent shock waves throughout the franchise world, although many now see the positive advantages it has brought in bringing home to franchisees and franchisors that the franchise formula is not all plain sailing.

If you are thinking of taking

Would you mind working unsocial hours in a fast food outlet or being constantly on call for a service business such as drain cleaning?

up a franchise, probably the first step is to ask some searching questions about why you want to do it. You have to try objectively to assess your own motivation: whether, for example, you have the emotional stamina to work long hours to establish the business, and whether you can cope with the lack of security that working for a salary from a large company can provide. Will your family, moreover, share your enthusiasm for the new way of life?

If you are satisfied that you have the motivation and access to the required capital, then you have to decide what sort of franchise will suit you. Do you mind working unsocial hours in a fast food outlet or being constantly on call for a service business such as drain cleaning? Or would you prefer to work more normal hours in a retailing franchise such as printing or clothes hire?

The amount of capital available also influences choice: £20,000, for example, would probably enable you to buy a low-cost franchise such as the ServiceMaster cleaning operation;

£20,000 would be needed as a minimum for a retail franchise such as Franchising, while a food franchise such as Pizza Express costs a minimum of £150,000.

The next step is thoroughly to investigate the franchisor. Franchisees are not get-rich-quick schemes and so you should suspect claims of large, quick profits, says Mr Dick Crook, chairman of franchise consultants Caltain Associates and president of the Franchise Consultants Association.

"You should be wary of sets of annual projections which lack detail and omit such important factors as depreciation and the cost of money being borrowed."

The integrity of the franchisor, the ability of its management, and its financial stability are the key questions to consider. Find out how long it has been in business and ask about its policies and plans for development. Consider also how the franchise is being offered. "Whenever you feel that you are being sold, back off," advises Mr Crook. "Franchisees should never be 'sold'. Instead, there should be a developing dialogue between you and the franchisor on the question of you joining the franchise to the mutual advantage of both."

If possible, contact some of the existing franchisees of your own choice to see how much support they have received and what problems they have found. Be wary of a franchisor who refuses to give you names and addresses of those to contact.

For would-be franchisees wanting to get more information on franchising without any obligation, the national franchise exhibition being held next month at the Kensington Exhibition Centre will provide an opportunity to compare a number of possible franchisees. Investigate carefully, listen to advice, and make the final decision yourself, advises Mr Crook. "Then work hard to make your franchise a real success."

WHEN Anita Roddick launched her first Body Shop in a small street in Brighton in 1976 she devised a machiavellian publicity stunt: a phone call to the local newspaper protesting at alleged attempts by neighbouring funeral parlours to block the shop and its name.

Now, some 11 years later, such tactics are hardly necessary for Ms Roddick, who is managing director of a company with 89 shops in the UK and 180 shops overseas in 23 countries. Body Shop, in fact, has become the most successful British retailer abroad with a larger presence overseas than giants such as Marks & Spencer or Mothercare.

Body Shop's route to growth was through franchising and now some 80 of its UK shops are franchised, with all the stores overseas franchise operations. The company's franchise policy is to encourage new blood into our group, to introduce new ideas and enthusiasm, while leaving our existing franchisees room to expand.

Mr Bortol takes this policy further: "Body Shop franchisees in the UK and all over the world are active in their local communities - many franchisees give talks to local schools and organisations, they provide work experience for young people, and they donate products to hospitals and charities."

A typical Body Shop franchise costs over £140,000. This is made up of £75,000 for shopfitting; £35,000 for opening stock; £15,000 for a quarter share of rent and rates; £2,000 for other

costs; and £1,750 for the design fee. The franchise premium is £5,000. Body Shop is typical of the way in which franchising has enabled many companies to expand their operations over the past decade or so. The main advantages are twofold. First, it enables a company with a successful operation to grow more quickly than could otherwise be achieved using its own capital. Second, the problem of finding highly-motivated, branch management is overcome by the expedient of having the 'manager' work for him or herself as a franchisee.

David Acheson, who is franchise consultant for the accounting firm Stoy Hayward and has 20 years experience in franchising, says that franchising has other managerial advantages. "A company like Kentucky Fried Chicken would need one area manager to control five company-owned outlets," he points out. "With franchising, the ratio would be something like one area manager for 25 franchised outlets."

Other benefits to a franchisor, he says, include a better service

A way to achieve growth and find good managers

Route to expansion

both Wimpy's own employees and those of its franchisees.

A Wimpy counter service restaurant, based on prime high street sites, normally requires an investment of about £500,000. About 40 per cent of this comes from the franchisee, with the rest coming as a bank loan.

Wimpy runs training sessions for new and existing franchisees, most of whom come from outside the catering industry. As franchisor, it also provides substantial marketing support for the brand name, spending almost £2m this year on television advertising and support promotions.

Other problems faced by franchisees sometimes include the franchisee feeling that success is due more to his or her own efforts than those of the franchisor. This can lead to the franchisee resenting having to pay regular royalty or other payments to the franchisor.

Communications can also become a problem, which can lead to conflicting objectives and less willingness by franchisees to co-operate in the running and development of the system. Says Hayward's Mr Acheson

to customers from more committed managers; outlets in areas where a company may not want to expand itself; and less head office administration.

But franchising as a means to growth can also have its drawbacks. Loss of management control over franchisees can sometimes lead to a harming of the image that a franchisor is seeking to establish.

The classic example of this was the Wimpy chain which, after many years of franchising, found that its market image was slipping because of poor-quality service in some outlets.

It was thus forced to buy back sites from franchisees and embark on a massive image-building campaign which included setting up company-owned sites to show how outlets should be run.

The main purpose of these company-owned restaurants is to evaluate new equipment, new products and new management techniques. They are designed to develop the skills of

points out that although profits potentially can be very substantial for both franchisor and franchisee, "do not think it is easy - it takes time, effort, and some money and the attitude must be right."

Companies that are considering franchising as a means of expansion need to take several factors into account. These include whether there is a sufficiently large market demand for a product or service, and whether it can easily be franchised.

In addition, the franchisor should consider whether or not the product or service has any staying power, or whether it is just a passing fad. Would-be franchisees should be clear whether effective and simple controls can be established and whether the company itself has sufficient depth of management to recruit franchisees and to develop the franchise.

If a company believes it has these qualities, then an experimental scheme should be launched for at least six to nine months, although industry experts believe a series of experiments over a year or more should be carried out.

While franchising reduces the cost of expansion compared with traditional methods, setting up a properly constructed franchise operation still costs money. Mr Acheson adds a firm reminder to would-be franchisors: "The success of the franchisor must derive from the ongoing success of individual franchisees."

Oliver's Eating cake

cakes and pastries. These are available in a shop or in the store's coffee shop or to take away. Characters from the musical Oliver are featured on crockery and throughout the product range.

Oliver's now operates some 30 outlets, of which 11 are franchise operations. Total turnover from the stores last year was £9m and the company was recently acquired by President Entertainment, which runs a number of restaurants and cafes in the south of England. President itself was acquired late in August by the Pleasure Leisure group for £63m.

Armed with his redundancy money and life savings, Mr Dewar was able to find about 30 per cent of the £240,000 needed to set up an Oliver's outlet.

He prepared a business plan, with the help of Oliver's, and approached three banks - National Westminster, Barclays, and the ICFC NatWest - to finance the venture.

Although Oliver's offers a range of specialist services for franchisees, such as surveys and legal assistance, Mr Dewar first decided to go it alone when planning the new store. However, afraid of hidden costs from doing it himself, he eventually decided to use the expertise of Oliver's to set the store up.

Both Mr Dewar and Oliver's management came up with the classic store site in Kirkcaldy High Street close to both British Home Stores and Marks & Spencer.

They opened in March 1985 with 24 staff, both part-time and permanent, who were given pre-opening training by Oliver's.

The initial product range was soon extended by Mr Dewar, who found that in his area, demand for cream cakes was especially high. Points such as these, and new recipes and ideas, are exchanged by all franchisees at regular meetings at Oliver's headquarters.

Mr Dewar's business took off, exceeding sales targets by 20 per cent in each of the past two years. He is currently adding another 50 seats to his 120-seat coffee shop section.

Opening a Wimpy fast food operation has recently opened next door to him, Mr Dewar maintains that this has not affected his business since they are in different markets. However, just to make sure, he is considering spreading his risk by opening another franchised outlet in Dunfermline.



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"I had always been interested in fashion retailing and I had a good idea to become involved with a successful chain through franchising," she explains.

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"There are few people offering a good, comprehensive, but flexible fashion franchise package," she believes. "I like the options that Oasis could offer me - they had a good style and image."

Although I had previously run my own retail business with some degree of success, the banks were still wary of the single business woman set-up," she recalls.

"I was simply amazed. There was at that time - and still is to a certain extent - a very large gap in the fashion franchise market. I was basically asking for an overdraft facility of £12,000 to open a fashion outlet in one of the most fashionable cities in the UK."

Ms Brierley, who had previously run her own newsagents shop in Scotland, decided that running a low-margin and long-hour-type of operation such as a confectionery-to-beaconist-newsagent was not for her.

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FRANCHISING 3

Opportunities

New ideas all the time

AS FRANCHISING has grown in popularity during the 1980s, so the range of opportunities available has become wider and more diverse.

A few years ago, for example, VDU Services would not have existed - simply because there were relatively few visual display unit screens that needed cleaning. Now, with terminals in virtually every office, the cleaning of computer equipment is big business.

Similarly, Stained Glass Overlay is a franchise that caters for the affluence of the 1980s. Backed by the home improvements company Anglian Windows, Stained Glass Overlay is a process which creates stylish and colourful effects on plain glass or mirrors - just the thing for the home that has everything!

There are now several hundred companies offering franchise opportunities, with more being added all the time. While many new areas are being considered, most of the established franchisors operate in a handful of major sectors.

The best known is probably the fast-food business. Yet, perhaps surprisingly, many of the major companies in the sector have been fairly reluctant in the past to expand rapidly through franchising - a consequence of worries over market growth in what has proved to be

a notoriously fickle and competitive market.

This reluctance to franchise may, however, be changing. McDonalds, for example, which is mainly franchised in the US, has kept to company-owned outlets in the UK for the past decade. But now it has just started carefully to offer franchises.

Kentucky Fried Chicken, another of the stalwarts of the fast food business but one which has welcomed franchising for many years, ran into some difficulties with a group of its franchisees earlier this year who were worried about changes within the group.

Burger King, which has more than 50 per cent of its 5,000 restaurants world-wide as franchise operations, is now keen to find new franchisees with an investment of £1m per restaurant to spend. It is actively seeking entrepreneurs and corporate organisations with funds, who believe that fast food is headed for fast growth in the late 1980s.

Apart from fast food, another well-established franchise sector is provided by car services.

This sector has also had its problems over the years, in line with the fluctuating fortunes in the UK car market, but now appears to be more stable. With over 15m cars on the road in the UK, there clearly remains plenty of scope for

growth. Hometime claims to be the world's first and largest mobile car engine tuning service. Established in 1968, the company's franchisees tune more than 180,000 cars a year.

New services are those such as Antoshens, a car valeting service carried out at a customer's home or office. The company has increased its number of franchisees from 20 to over 100 in the past year.

The Mintel market research company, in a report on franchising, has pointed out that "where a car services franchisor has a sound business format, the franchisee can earn a reasonable living without making a fortune or, where a franchisee already has a strong established business, a franchisee such as Budget-Rent-A-Car can represent a profitable addition."

Retailing is another major franchise area, although it is not as developed in the UK as in parts of continental Europe. The Benetton fashion chain, for example, has used franchising to spearhead its growth across Europe.

The convenience food sector is a prime target for franchising since it requires individuals prepared to work for long hours and provide a service. Late Supermarkets, for example, are convenience stores developed by

the Co-Operative Wholesale Society. Franchisees can take advantage of the CWS's huge buying power to help sell at competitive prices.

Another convenience store franchise is Circle C, owned by a private company which has been in grocery retailing since 1958.

Other retail outlets provide a variety of services. The instant print sector - such as Print-a-Pic or Kall-Kwik - continues to grow rapidly, providing a service mainly to business customers.

Film developing outlets - such as Foto Max - are also doing well, helped by the surge in tourism both at home and abroad.

New market opportunities are appearing all the time. With over 5m homes in the UK more than 60 years old, for example, the business opportunities in refurbishing property are a clear growth sector.

Gun-Point, for example, is a patented mortar pump and gun which repoints buildings. Its franchising scheme means that it now covers the whole of England and Wales. "There is huge demand for this type of service and we are already having to turn away work until we get more franchisees," maintains Mr Ian Riddlesden, Gun-Point's marketing director.

Tie Rack 'outshone the rest of the pack'

Boss with back-up

LUCKY BRENNAN was 'bored, stuck in a rut, and needed a change' when she worked as an account executive in a London advertising agency. So she decided to start up her own business.

Ms Brennan, 28, decided that her lack of experience in running a small business meant that she should take up a franchise.

She researched various franchise opportunities, with assistance from the British Franchise Association information packs, and decided that Tie Rack outshone the rest of the pack.

Tie Rack was founded in 1981 by Roy Bishop and, it is claimed, is the world's leading specialist retailer of ties and accessories for men and women. It has some 115 retail outlets, mainly franchised, with plans for a further 40 stores to be opened throughout the UK this year.

In June this year the company was floated on the stock market and was over-subscribed 85 times.

The flotation has added fur-

ther impetus to our expansion programme," says Ron Delvevo, Tie Rack's franchise director. "We are looking for people of all ages and from diverse backgrounds who are prepared to make a commitment to the success of the business."

Ms Brennan had a clear idea of what she wanted from a franchisor: a well defined marketing approach, a quality product, effective back-up, and acceptable margins to generate sufficient profit.

"After a few preliminary meetings we came to understand how Tie Rack could meet these objectives," she recalls. "What became even clearer was the amount of hard work needed in order to make such a venture viable for both parties."

The cost of Ms Brennan's franchise, which she took up in September 1986, was £52,000. She also has to pay Tie Rack 22.5 per cent of her turnover, out of which Tie Rack pays rent, rates and service charges. Tie Rack owns the lease of her shop in Felling, West London.

"When you become your own boss, the buck stops with you

and no one else," Ms Brennan points out. "Being a franchisee means the buck still stops with you on most things, but I also have the support and back-up of the Tie Rack network, drawing on their experience and expertise."

She believes that one of the most important factors in the franchisor/franchisee relationship - which can often be strained - is an open communications system with encouragement to share news and views.

"Our Tie Rack area manager is our main linchpin to the central operation," Ms Brennan explains. "He or she becomes supporter, teacher, motivator, colleague, and often friend."

On a more practical level, Tie Rack's 30-day merchandise system is seen by Ms Brennan as a crucial element in making the franchise work. "We can return any merchandise not sold to Tie Rack for full credit, and it enables us to merchandise our shop effectively without tying up our finances in slow selling stock," she says. "What is good stock for one area may not work for another, so stock rotation



Lucy Brennan

and redistribution is a benefit for the system."

Ms Brennan remains enthusiastic about franchising: "I love being a franchisee, although there are times when I hate it too - especially when I am installing the January sale at 11.30 pm on Christmas Eve," she says. "But then you love it when the doors open and people flood in to snap up bargains." Her success in the first year has encouraged her to plan setting up a second franchise soon.

British Franchising Association

Ethics code is being updated

The British Franchise Association, the main trade body for the franchise movement, has found an uphill task over the past decade in ensuring that franchising develops into a significant and stable business sector.

The association was formed in 1977 to help weed out the "cowboy" operators who were beginning to give franchising a bad name, as well as establishing guidelines for new entrants to the industry.

In particular, the well-publicised pyramid selling scandals of the late sixties and early seventies did considerable damage to public awareness of franchising, even though pyramid selling was only a tiny part of the franchise movement.

The damage done, however, was enough to bring together eight large UK franchising companies to form an association of franchisors.

The association carries out a screening of new applicants for membership. This covers a complete check of the franchisor's financial background, an exam-

ination of its legal agreements with franchisees, its willingness to abide by the association's code of ethics, and whether or not there is a successful pilot franchise already operating.

There are two membership grades: those companies with full membership have been trading for some time and are established franchisors. Those companies which are still developing their franchise can become associate members of the association until they qualify for full membership.

From the original eight founders, the association now has over 100 members, of which some two-thirds are full members.

The association has not been without its problems in recent years, notably the collapse of the Young's Franchise Group under the control of Mr Edward Young and the particular problems faced by some La Mama franchisees, one of the Young's franchisees (Young's, incidentally, is now trading normally -

apart from La Mama - under new ownership).

Mr Tony Duffield, the association's director, says that "over the past year there has been considerable activity within the association to ensure that the greatest possible safeguards are built in for the prospective franchisee."

He points out that the association "has improved its accreditation procedures and is now looking for more financial information, such as an auditors report on companies. We have also instituted internal audits for member companies renewing their membership."

One development over the past year has been the updating of the association's code of ethics which is now available in booklet form.

These guidelines cover all aspects of the franchise agreement, selection of franchisees, resolution of disputes, and disclosure requirements for franchisor companies.

The ethics booklet also includes details of the new arbi-

tration scheme for franchisors and franchisees, which is being administered by the Chartered Institute of Arbitrators.

Concerned with criticisms that the association is not worried about individual franchisees, the association has designated 1987 as "The Year of the Franchisee". Among its activities to help franchisees have been more face-to-face meetings with individuals through regional seminars.

"What the association is endeavouring to do is to ensure that prospective franchisees evaluate for themselves whether they are well-suited and have the qualities it takes," points out Mr Duffield. "This goes back to the education process and is exactly why we are so committed to exhibitions, seminars, and conferences where we can spell out what franchising entails."

British Franchise Association, Franchise Chambers, 76a, Bell Street, Henley-on-Thames, Oxon, RG9 3BD; Telephone: 0491 578049.

Financing

Banks happier now to lend

WHEN FRANCHISING as a business format really started to take off in the early 1980s, would-be franchisees who went to their local bank manager often left the office empty-handed. The typical bank manager had no idea of what made a good or bad franchisee in the average person in the street, so it was hardly surprising that there was reluctance to advance funds on so skimpy a knowledge.

But all that has changed. As the small business operator has become the face of the nation, so the banks have joined the franchising bandwagon.

All the major clearing banks now have a keen interest in franchising, although Barclays, National Westminster, and Lloyds are probably the most active in their willingness to offer finance for new schemes.

NatWest, in fact, lays claim to being the first British bank to

appoint a manager to deal solely with franchising way back in July 1981. The bank now has three franchise managers with a support team of four other staff.

Mr Stern's decision to enter the market has been vindicated by our high profile in the UK franchise market place and the 250m lent to franchisees and businesses since inception, virtually lost free," points out Mr Peter Stern, NatWest's senior franchise manager.

The NatWest approach is to provide detailed information

packages as a basic guide to franchising for both customers and branch managers.

"We also want to be active in the market place and to use the knowledge that we gain to give guidance to franchisees," points out Mr Stern. "Our franchise contacts include the British Franchise Association and the lawyers, accountants and consultants who have developed an interest in franchising."

Mr Stern makes it clear that the bank does not warrant or recommend any specific franchising opportunity and is insistent that professional advice is sought before entry into any franchise.

The bank's major concern with advancing money to any small business venture - including franchising - is the high failure rate among small businesses in general.

An estimated mortality rate for small businesses in the first year would be of the order of 25 per cent, and for failures in the first five years, estimates suggest the failure rate varies between 40 and 70 per cent.

But of all new franchisees, the worst estimate for one year failure is 10 per cent. Mr Allan Pope, Lloyds Bank franchise manager, claims that eight per cent is never the mark and that if non-members of the British Franchise Association are excluded, the failure rate in the first year drops to two per cent.

Banks' policies vary but as a general rule of thumb they will contribute anything between 30 and 70 per cent of the start-up money required - with the rest coming from savings, sale of assets, a second mortgage, friends or relatives.

Franchisees' short of their own capital or security may persuade a bank to back them under the government's Loan Guarantee Scheme. This gives the lender a government guarantee for 70 per cent of the loan which can be claimed if the borrower cannot repay. The cost of the scheme, however, is less attractive than when it was first introduced in the early 1980s.

Barclays also is keen to develop its relationship with potential franchisees as well as franchisees. It was part of its role as "assisting established businesses which wish to expand using the 'business format' franchise vehicle by ensuring that they fully understand the franchise concept, the importance of establishing a sound financial or legal structure for their franchise operation, and that they receive expert professional advice."

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MANAGEMENT

Disposable nappies

Celatose: soaking up the own-label market

BY GEORGE GRAHAM IN PARIS

WHEN CELATOSE'S entire production plant burnt down twice in the space of six years, many of its clients and competitors thought they had heard the last of the nappy-maker from Lille in northern France.

Starting again from scratch in the cut-throat disposable nappy market presented the intractable problem of how to make headway against the dominant brand names like Pampers and Peaudouce.

The marketing budget needed to defend Celatose's Cousinette nappy brand was beyond the company's means. Instead, Celatose fixed on a double strategy of concentrating on producing private label nappies for supermarkets and other retailers, and of expanding its sales outside France.

"We decided to treat the whole of Europe as our back garden," says Pascal Motte, the chairman.

The strategy has been so successful that Celatose is now Europe's leading producer of private label disposable nappies, and fifth in the world. In its home French market it has a 21 per cent share, second behind Peaudouce but outstripping Procter and Gamble's Pampers or the Tendersse and Caline brands of Colgate, while in West Germany and the UK its share of the total disposable nappy market is also close to 20 per cent.

Besides three plants in France, Celatose now has two in Wales - the second, at Blackwood, near Cardiff, opened this year - one in West Germany, and a new factory opening at Barcelona in Spain.

Private label nappies, which accounted for only around 3 per cent of the French market a decade ago, now represent 33 per cent. Celatose produces two thirds of them, supplying major supermarket and hypermarket chains like Carrefour, Auchan or Promodes.

In the UK the private label market has developed further and now accounts for 32 per cent of the 2bn disposable nappies sold each year - though the throwaway nappy only takes 64 per cent of the total nappy market in Britain compared with 98



per cent in France. Celatose supplies retailers like Mothercare, Sainsbury, Tesco and Asda.

Now 44, Motte became sales director of Celatose in 1987 and managing director in 1993, just before the second of the two fires that devastated the company's plant.

He believes that the boom in sales of private label nappies owes a good deal to the fact that Celatose stepped into the market offering retailers a product that met their needs.

"I believe that private label nappies could take a much bigger share of the US market if there were a well-focused source of supply," the Celatose chairman says.

Private label products make good sense in the disposable nappy market. A French family spends FF250 to FF300 (230) a month on nappies for each baby, an average of five changes a day for two years.

This sort of outlay - probably more than is spent on the baby's

food - makes the buyer highly sensitive to price, and keen to save 15 to 20 per cent by switching to a supermarket's own brand.

A woman spending a tenth of this amount on sanitary towels is far less sensitive to price and more susceptible to brand marketing, comments Motte.

For the retailer, too, the private label approach can pay dividends. A supermarket can sell twice as many own label nappies per linear metre of shelving as it can of national brands, according to Etienne Thill, a marketing consultant working for Celatose.

In France, nappies represent FF4bn a year of sales for supermarkets and hypermarkets, 1 per cent of their total turnover and the sixth most important product range after coffee, pastas, tinned goods, cooking oils, tinned goods, biscuits and detergents.

To gain ground with private label nappies, however, the product has to provide the technical qualities that consumers need. Motte says a key factor has been Celatose's determination to design and build its own production equipment, which allows it to install new machinery in around four months, a third of the time which would be needed if it relied on outside suppliers.

"This has enabled the company to keep up with changes in nappy technology over the last ten years - the shift from the rectangular nappy to the knicker-shaped nappy, resealable waistbands, bottom-hugging elasticated contours, moisture-indicating logos which disappear when the nappy is wet, and the new 'ultra' nappy which has the same absorption characteristics as traditional materials with 40 per cent less bulk."

"We only introduce innovations if they really bring an advantage for the user. Brand names backing it out with each other often add gadgets which don't really do anything functional," says Motte.

Celatose has also exported turnkey nappy factories to North and South America, the Near East and South-East Asia. The results have shown up in

Celatose's strong sales growth. From FF158m in 1978, when it sold 86 per cent of its output under its own brand name, they rose to FF1.15bn last year - FF620m outside France.

This year turnover is projected at FF1.35bn, with FF600m outside France, and a further 18.5 per cent sales growth is expected in 1988.

Profits growth has also followed, from FF10m net in 1984 to FF17m in 1985 and FF43.7m last year, but Motte warns that 1986 was an exceptionally good result that is unlikely to be repeated. Financial expenses were unusually low and the result includes exchange rate gains of FF55m. The projections are for FF130m this year and FF140m in 1988.

This has been backed with a heavy investment programme, totalling FF790m in 1986 and FF1.13bn this year, including the costs of the new Spanish plant.

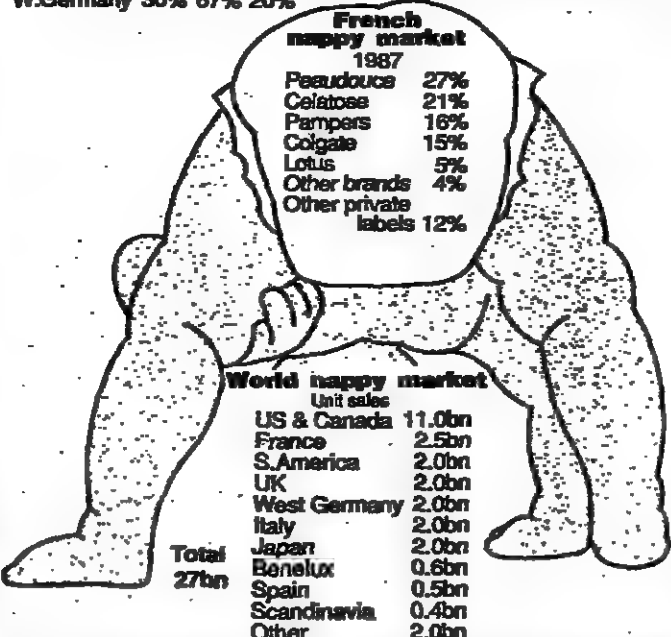
Celatose's medium and long term debt burden is equivalent to 41 per cent of its equity base, but a further FF450m capital increase, to be followed by the company's flotation next month on the second market of the Lille regional stock exchange, has improved this ratio.

Diversification is planned in adult incontinence products, where Celatose sees a potential European market of FF1.6bn.

"There are 2m incontinent adults in France alone. We believe enormously in this market," says Motte.

But his eyes are really on geo-

Private label share of market			
	A	B	C
France	32%	63%	20%
UK	32%	39%	18%
W.Germany	30%	67%	20%



World nappy market	
Unit sales	11.0bn
US & Canada	2.5bn
France	2.0bn
S.America	2.0bn
UK	2.0bn
West Germany	2.0bn
Italy	2.0bn
Japan	2.0bn
Benelux	0.5bn
Spain	0.5bn
Scandinavia	0.4bn
Other	2.0bn

graphical expansion beyond the base of France, Benelux, West Germany and the UK, where Celatose is already well implanted.

Besides Spain, which currently accounts for only 2 per cent of Celatose's turnover, Motte has ambitions in other European markets where the disposable nappy has not yet come of age.

In Scandinavia, for example, babies still use large numbers of rectangular pad nappies, which require an outer pant, rather than the all-in-one nappy which is Celatose's speciality and accounts for over 80 per cent of the French market.

Expansion may now require the acquisition of existing producers, whereas all Celatose's growth to date has been internally generated.

Beyond Europe, Motte is taking an original view of 1982, which has become an obsession for French companies and government officials keen to be fully competitive in time for the creation of a single internal market in Europe. By then, he aims to have a third of his sales outside Europe.

His immediate targets are Turkey and Syria, but beyond that lies the world. "There are 125m births in the world each year, a potential market of 490bn nappies a year, but world sales are only 27bn nappies a year. In Asia there is a 2 per cent penetration of the potential market, in Latin America 5 per cent and in Africa only 1 per cent," says Motte.

But his eyes are really on geo-

Getting to grips with a decade-long dogfight

Dick Besser talks to Nick Garnett

DICK BESSER shares many things with a lot of other American managers. For one thing, he runs a US company in an industry which has been ripped apart by the Japanese.

For another, he thinks the Japanese are now on the slide and the time has arrived to repay the pasting they dished out.

"Okay, we got fat and lazy and that's a fact," says Besser. "But I tell you my company is going to be a real driving force in the next few years, you watch. We think the Japanese have over-

extended themselves this time."

He is certainly going to have his work cut out. Besser is head of the turning machine division of Warner & Swasey, the heart of Cross and Trecker, the biggest machine tool company in the US.

Ten years ago, Warner & Swasey was a mini-cosmos. Its machines held 60 per cent of the US lathe market. But when Japanese machine builders piled into North America at the turn of the decade, using the indigenous machine tool industry as a doormat, Warner & Swasey was swatted like a fly. Its share in the US is now a miserable 6 per cent.

"The Japanese developed superior products, underpriced us and outsold us. The US industry just went to hell. We suffered badly and lost money."

Besser thinks the boot is now on the other foot, at least as far as his company is concerned. "The Japanese have got real problems. To get their costs down they are having to buy machine carcasses from Korea. Can you guess how much anguish they are going through to do that? Warner & Swasey has got a God-given right to have 30 per cent of the US lathe market. That's what my boss says. That's my mission."

The boss is Dick Lindgren, president of Cross and Trecker which purchased the company in 1984. The independent Warner & Swasey was acquired by Bendix seven years ago and then by the Allied Corporation

in 1983 before it fell into the hands of Cross.

Besser only joined Warner & Swasey at the beginning of this year, having run the US operations of Schuler, the West German manufacturer of presses and coin minting equipment. He is new to the grim decade-long dogfight with the Japanese. That might account for some of the enthusiasm that bursts out every time he issues forth on the subject.

Working from Warner's base

in 1983 before it fell into the hands of Cross.

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INSIDE THE EDGE

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Ramsay and Lawrence, with the latter contributing a fine portrait of the artist's home at £5,500, because of its size—46 inches high.

FINANCIAL TIMES

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Monday September 28 1987

A weapon for Mr Lawson

COURTESY of the Government Statistical Service, a week ago also be a long time in economics. Just the week before last, one item of good economic news followed another. The turbulence on which markets thrive was provided, however, when news was released on September 24 that the preliminary estimate of the current account deficit for August had tripled over the July level to \$2.8bn.

What response, if any, is appropriate? The first and more obvious one is that since the principal danger remains inflation, any considerable weakness in sterling (not evident thus far) should be met by a willingness to raise interest rates. The apparent policy of shadowing the DM remains correct.

Fiscal target

To the extent that one is concerned about the current account, however, a policy of pegging the exchange rate is so help. High interest rates to support the exchange rate ensure that the current account deficit is financed rather than reduced.

Accordingly, the second appropriate response is a cautious fiscal policy, the reason being that apart from an immediate effect on demand, there is the structural effect on the overall national rate of saving. Important for this view of fiscal policy is the longer term concern about how to finance the rise in investment that will have to be the next stage in the UK's growth. Such a rise in investment should probably not be financed exclusively by running down external assets via a greatly increased current deficit.

Safety valve

The Chancellor responded by ascribing the results to weakness in the world economy. This might, indeed, be a part of the explanation for the (seasonally adjusted) decline of 1 per cent in the export volume for June-August by comparison with the previous quarter. He could, however, have made the equally apposite comment (especially just before going to Washington) that the UK, one of the world's most creditworthy countries (owing, of course, to the Government's sound management since 1979), is doing its bit for global balance-of-payments adjustment.

In the presence of temporary domestic excess demand, the balance of payments can be used quite appropriately as a safety valve, especially if the alternative is the less reversible one of higher inflation. Such a deterioration in the net asset position of the country is particularly appropriate if the deficit is investment-led.

As it happens, the volume of capital-goods imports declined

in August via a via July, while those of motor cars rose by 30 per cent. More encouragingly, for the three months June-August, imports of capital goods rose at the same rate over the previous quarter as those of manufactures in general, by 8½ per cent.

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Accordingly, the Chancellor can argue that the proposals floating around for a 28th increase over the previous target for expenditure in 1988-89 could imperil the hoped-for tax cuts in the next budget. Strict monetarism may have perished, but a more sensible over-averaged rapid growth does not provide a free lunch for Ministers in charge of spending departments.

Privatisation, Italian style

THE ITALIANS are trying to redraw the boundaries between public and private sectors of industry, and they are doing so without the clarity of purpose or the ideological drive of the Thatcher Government in Britain.

Resistance to privatisation in Italy does not stem, as in the UK, mainly from a traditional view on the left that the state should control the commanding heights of the economy. It is rather that many of the state-controlled industrial and financial groups have links with one or other of the political parties and represent convenient sources of patronage and influence. Hence, too many industrial decisions, including key appointments, become enmeshed in politics. This politicisation of industry imposes a cost on the economy which is not wholly offset by the well-known dynamism of Italian entrepreneurs.

Political minefield

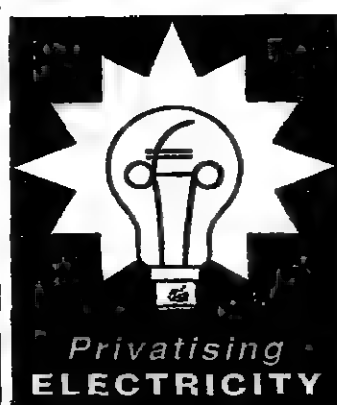
IRI, the largest of the state holding companies, is at the forefront of the move towards privatisation (a term which Italian officials prefer to avoid) and it has had some successes, notably the recent sale of the chemical loss-maker, Alfa Romeo. But it has also had a long way through a political minefield. Explosions are always possible. Like last week's row over the appointment of a chief executive in the new telecommunications company, Telit, which brings together IRI's Italtel subsidiary and Telettra, owned by Fiat, Italy's biggest private-sector group. Fiat's motives in objecting to IRI's nominee are obscure, but the speed with which politicians of different hues have joined in the argument illustrates the pitfalls which can disrupt even an apparently straightforward piece of industrial restructuring.

International competitiveness

Both IRI and ENI, its counterpart in the energy sector, are reshaping their em-

Strong dose of liberalisation

The process of reducing the role of the state and of decentralising industrial decisions is bound to be gradual. It would be unrealistic to expect the present weak coalition Government under Mr Giovanni Goria to launch an ambitious privatisation programme for which no consensus exists. Mr Goria will have a hard enough task keeping his administration intact and dealing with pressing economic problems, including the public sector deficit. But there does seem to be a general recognition that Italy's industrial and financial structures need to be brought up to date and that privatisation is a necessary part of the modernisation of the Italian economy. The banking system, for example, is dominated by public sector institutions. A strong dose of liberalisation and competition is required if Italian banks are to play their part in the more open European market for financial services, which is beginning to take shape.



Privatising ELECTRICITY

THIS SUMMER, as British ministers and officials toured the US in search of ideas for denationalising electricity, John Harrington, the US energy secretary, was warning private sector utility executives of the need to head up investment and sharpen competition.

"There are large tough questions looming about meeting generating capacity needs," he told the annual meeting of the Edison Electric Institute, representing the private companies which account for the majority of America's \$153bn-a-year (\$93.3bn) electricity industry.

Mr Harrington described the need to replace some of the nation's regulations with greater reliance on market forces. "Just as the competitiveness of the American economy relies on a healthy electric power system, the future health of the electric power system may well rest with our ability to put competition to work to assure the adequacy and efficiency of future power supplies."

Similar remarks could be used by reformers in Britain, who want to break up the large state monopolies which dominate the UK electricity industry and to reconstruct along the lines of the investor-owned utilities in the US.

However, although America was the birthplace — and for many years the showcase — of privately owned electric power, it is a mistake to believe that the larger private utilities are either more successful than they have recently shown much enterprise. As Mr Harrington's comments suggest, the US can provide only a smudged blueprint for those who think that the central aim of British privatisation should be to encourage a vigorous free market.

This is partly because of the size and diversity of the system in a country where the population is spread seven times more thinly than in Britain. In the US many small power plants were built to serve towns and districts, following the example of Thomas Edison's first central power station in New York in 1882. There are still about 4,500 separate electric utilities in the US.

A steady consolidation of companies owned by investors has taken place. There are now 149 private utilities, many of them owned by 51 holding companies. This private sector was responsible for nearly 80 per cent of electricity sales last year. Many of the utilities are mainly concerned with generating electricity for their locality, in a pattern similar to that in Britain before the development of the integrated national grid 50 years ago.

Over the years American companies have developed closer relations with their neighbours, trading power over high voltage transmission lines which con-

nect the states into three rather loose grids. In the more populated areas, utilities have combined into closer groups or power pools to achieve security of supply and economies of scale — the largest has more than 45 members. The pools can involve central control of members' power stations as well as minute-by-minute computerised billing systems between utilities trading power.

This system is dominated by the state regulatory commissions, which have to approve any price increase, and by the Federal Energy Regulatory Commission (FERC) which controls wholesale transactions across state borders. These regulations and the performance of the industry under these have been the subject of widespread complaint and pressure for a bold deregulation similar to that of the airline industry.

The problems were set out by the US Department of Energy in 1982, in a study entitled *The Future of Electric Power in America*, which said: "Public confidence in the electric industry and the regulatory system has deteriorated over the past 10 years as electricity prices have gone up. There is a growing perception that utility companies are not as well managed as they could be nor as well regulated as they should be."

Since the US's private electricity companies are subject to public scrutiny, it matters what people think — whether or not they are well informed. And this leads to the heart of the dilemma which those planning to privatise electricity in the UK must also confront: who should pay for the building of capacity for the future? Shareholders, consumers or, if costs can be deferred, future electricity users?

In the UK, one of the main criticisms of the Central Electricity Generating Board (CEGB) is that it has spent huge amounts from current revenues in the pursuit of bigger and better power stations, and nuclear prototypes, though its low return on investment has forced a private sector equivalent to search for less capital-intensive options.

US utilities also built too many stations in the over-optimistic 1960s and early 1970s, and their record on building nuclear reactors to time and budget was abysmal. However, in the last decade, pressure from shareholders and consumers has brought construction of large plants almost to a standstill.

So at a time when the CEGB is confidently planning to step up its building programme, with four or five new nuclear reactors and a similar number of coal-fired plants, across the Atlantic, the planning of large stations remains torpid.

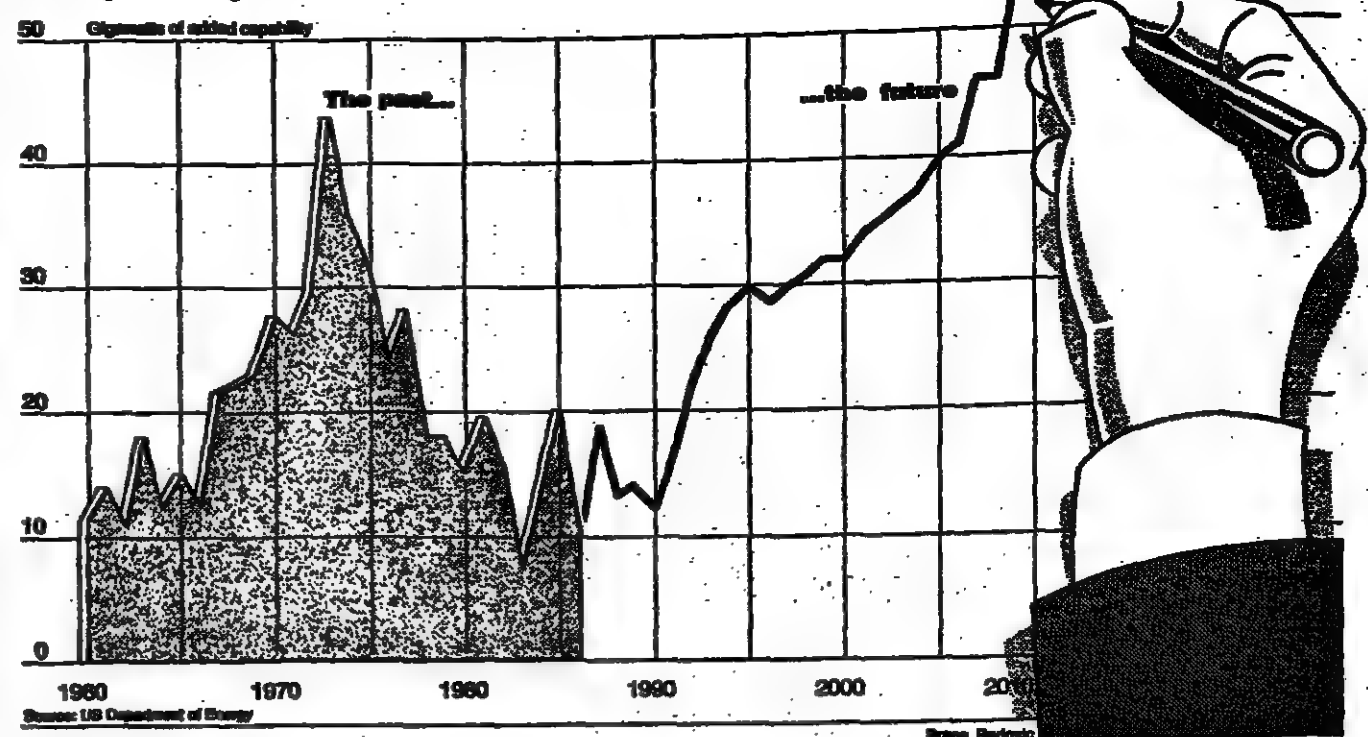
Although this does not present an immediate danger that the lights will start going out throughout the US, many commentators are suggesting that the present planning failure will require patch-and-mend solutions in a few years, which will lower the efficiency of the system and raise electricity prices.

The US Department of Energy has estimated that annual electric bills could be as much as \$18bn — roughly 12 per cent — higher by the year 2000 if utilities pursue strategies intended only to minimise their capital expenditures. Yet the task facing

Max Wilkinson looks for lessons from the US

US INVESTMENT IN POWER PLANT NET ADDITIONS TO GENERATING CAPACITY

Assuming 3% annual growth in demand



Source: US Department of Energy

Drawn: Reuters

The blueprint is badly smudged

utilities is enormous: in 1982 the department estimated that to match an annual growth in demand of 3 per cent to the year 2000, investment of more than \$1 trillion (million million) would be needed, a figure comparable with the US's entire external debt and three times the industry's physical assets.

The Administration's response has been to call for a loosening of Federal regulations and reform of the cumbersome Nuclear Regulatory Commission. Beyond that, it has made limited efforts to encourage greater competition, with mixed results. One experiment to allow utilities to trade bulk power without having to ask FERC to approve prices had only limited effect.

The better known effort to encourage small private "co-generators" through the Public Utilities Regulatory Policies Act of 1978 seems to have been highly successful. By the beginning of this year, private companies had filed applications to build 54,000 MW of small power plants, under a scheme which forces local utilities to buy surplus output at a price equivalent to the cost of generating it themselves.

Without knowing exactly how, the Administration would like to encourage a more open market mechanism for the building of power stations, in place of the highly restrictive approvals procedures of many state regulators. These generally allow a utility to recoup all reasonable capital costs plus a fair rate of return on its customers.

In recent years, the process of establishing what is "reasonable" has become more and more adversarial, with public interest groups taking on the utilities. The delays inherent in these "rate cases," measured typically in years, have reduced the overall effective rate of return on power stations and, therefore, the incentive to build.

It was in an attempt to avoid some of these problems that the British Government opted for a much simpler regulatory formula intended to keep utilities' costs below the inflation rate. But, in the long run, it is unlikely that prices can be regulated without taking a view of a utility's profit and performance. To achieve this, Britain may have to move closer to the American system, perhaps by emulating some of its openness and thoroughness, while trying to avoid the excessive litigation and the minutely detailed supervision.

In the US, some believe the answer is to reduce the need for regulation, by increasing competition. As a result, utilities are facing pressure for "mandatory" wheeling — a legal requirement that owners of transmission lines should give a "right of way" to any private sector generator wanting to sell power direct to a third party (probably a large industrial company). This idea, which follows the installation of transcontinental gas pipelines, is a direct counterpart to the campaign being waged in Britain to open up the national grid to independent competitors.

However, the Edison Electric

Institute has strongly opposed this idea on the grounds that electricity cannot be sent along specific transmission routes. It says a significant increase in the use for "trading" could cause congestion elsewhere to the detriment of other customers, who are using transmission for power-sharing exercises intended to minimise costs. It is similar to the arguments about "system integrity" being deployed by the CEGB.

Deregulation proposals have also been criticised on economic grounds. This is because modern electricity systems can reap considerable economies of scale, not only by building larger power stations, but also by integrating them into big systems which allow the costs of fuel, maintenance and spare capacity to be minimised.

Paul Joskow and Richard Schmalensee, of the Massachusetts Institute of Technology, say in their book, *Markets for Power*, that the co-operation required in the most effective power pools would be difficult to reconcile with competition between generators. Since most utilities are now vertically integrated and regulated, they are not highly competitive, although they do trade. Sophisticated computer accounting in some pools functions more as a device to encourage co-operation than on a competitive spot market model.

Even if distribution companies were to be demerged and extensive spot markets in wholesale power were established, Professors Joskow and Schmalensee argue that generation companies would lack the incentive needed to make long-term investments in plant. So, they believe, close relationships would soon be re-established through long-term contracts. They conclude: "It is clear that rapid and complete deregulation of the electric power industry... would reduce efficiency and be politically unacceptable," though they do favour moves towards more competitive pricing and some opening up of wholesale markets.

Because of the huge differences, the US system should not be taken as a simple model for British privatisation, but there are some lessons to be learnt. Perhaps the most important is the benefit of openness which, as Britain's Electrical Power Engineers' Association notes, gives individual members of the public access to the decision-making process. Although this can lead to short-termism, it has also made utilities more responsive to public preferences and capital market pressures. This openness also allows comparisons to be made which can, in theory, galvanise the worst performers.

The other strength is the potential for innovation: regulation in some states have been able to encourage a range of sensible ideas including conservation, more flexible metering and the use of small private plants to top up a utility's supplies. In a monopolistic structure like that in Britain, it is more difficult for such experiments to flourish.

JOHANNESBURG, SEPT 27

A show of black power

THE spring rains have come early to the highveld this year and Johannesburg's northern suburbs are a riot of blossom. But it is a lot bleaker diving into the city from the south, past Soweto and the gold mine dumps. But Soweto too has its plush owner-occupied suburbs like Beverly Hills and Protea North and gentrification proceeds apace as thousands of lower income Sowetans take advantage of cut prices sales of formerly rented matchbox houses.

Soon after purchase the small gardens start to sprout flowers and hedges, coachlights and brass knockers appear on the doors and builders descend to transform the old matchbox into a desex, with all mod-cons.

Apart from managers of top of the league black football teams like the Kaizer Chiefs and the rising new class of black professionals the fastest growing section of the new black bourgeoisie is that of the small business owner. With the Southern African Black Taxi Association (SABTA) now boasting 45,000 members — including many in the home-lands, Swaziland, Lesotho and Botswana — and at least another 40,000 "pirate" operators in the field, the taxi industry has become the most successful example of black enterprise over the past decade.

It also provides a major market for Isuzu and Toyota who dominate the market for the mini-buses called affectionately "Mami Deekers" or "Zola Budds" by black commuters. Now SABTA is involved in convoluted, and presently stalled negotiations, to buy the Puteo bus company from a white Carlo, a third generation South African Italian whose grandfather built up a transport empire transporting blacks from the townships to their work in the city.

If the deal comes off it could

lead to a major breakthrough for black business.

Answering back

Capetownians like to look down their noses at Johannesburg, for they see it as a jumped-up mining town. But that is not how it seems to the rest of Africa.

The skyscrapers, throbbing townships and industries give it a raw vitality like nowhere else on the continent.

At night most of the 30 million central business district is eerily deserted as the City of London, or used to be but a handful of recent developments have started to re-vitalise the city's life including the rapid growth of de facto mixed race areas in inner suburbs like Mayfair and Yeoville and above all Hillbrow — whose blocks of high rise flats rise from the Reef which made Johannesburg's fortune.

On Saturday mornings downtown Johannesburg is a 90 per cent black city — thronged with black shoppers — often with their immaculately-dressed children. Whites, who over the past 30 years have gravitated to the suburbs, are now coming back, attracted by new shopping centres around the brand new Johannesburg Sun Hotel and above all by Saturday's open-air market next to the market theatre complex.

Saved from demolition in the nick of time the old covered fruit and vegetable market has been turned into a vibrant cultural complex of theatres, a newly-opened music hall in an old warehouse, Kippies — a converted public lavatory which now hosts local jazz legends like saxophonist Mamebo, Costas — as well as bookshops, restaurants, pubs and boutiques. Othello, directed by Janet Sumner, is playing to packed

houses at the market with John Kani — probably South Africa's best known black actor — playing the role of a couple of years ago while "verkrampies" caused a minor storm by walking out of Strindberg's *Miss Julie* when Kani kissed the play's heroine.

But Jo'burg has its dark side too — including a spate of brutal murders of old people in their homes and a series of rapes and murders in the city's few parks. Every week in suburban streets sees new walls built or new security devices installed to supplement the big dogs which roam most suburban gardens.

Boers and Reds

In the old days when Russia was still ruled by the czars and Afrikaners were fighting British troops in the Boer War, the Russians sent a large but rather nasty pink porcelain snuffbox to Pretoria as a symbol of their support for the Boer "freedom" fight.

Covered with Cyrillic praise, it still occupies pride of place in Pretoria's Transvaal Museum. Much has changed since then — including the severance of diplomatic relations in 1956 when the Russians were told to pack their bags and leave their consulate in Pretoria. They were accused by the then Foreign Minister Eric Louw of espionage and serving drinks to blacks at diplomatic functions.

It is still a neat point which is a new and even more hostile phase developed after the collapse of the Portuguese African empire in the 1970s. This was followed by the stirring of thousands of Cuban troops, Soviet bloc advisers and sophisticated weapons to Angola and the forging of close ties with the Marxist Frelimo regime in Mozambique.

Pretoria's suspicions of Soviet intentions in the region were further enhanced by the unmasking of the deputy commander of the Simons Town naval base as a Soviet spy and the fact that Soviet embassies in Lesotho and Botswana as listening posts for the gathering of information about the republic.

Recent months, however, have shown signs that both Moscow and Pretoria are re-assessing their future relationship. One straw in the wind was the visa granted to Professor Phillip Nel, Professor of Soviet Studies at Stellenbosch University to attend an international conference on philosophy in Moscow.

During his 16-day stay he also met senior South African leaders and came away impressed with the quality of recent Soviet research and evidence of a serious attempt to come to grips with the complex reality of South African society — including the key role played by Afrikaners and the intellectual and moral turmoil within Afrikaner ranks. They are no longer satisfied with the information and analysis supplied by the South African Communist Party and the ANC, Prof Nel adds.

But a similar re-appraisal appears to be taking place in Moscow. Soviet anti-Americanism is strong in government circles as a result of disinvestment and what many see as the hysterical nature of the US debate on South Africa. Afrikaner military men and analysts are asking: "How many divisions have the Americans in Africa?" — a latter-day variation of Stalin's famous question about the Pope.

The answer, of course, is nothing like as many as the Russians — a fact which injects a basic weakness into America's diplomatic efforts to bring peace to the region.

Earlier this month Minister of Defence, General Malan even went so far as to ignore the US rule when he stated in parliament that "the two states which could make or break the sub-continent were South Africa and the Soviet Union."

Observer

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AS THE ROW over British Telecom's quality rumbles on, the West Germans have introduced a package of proposals which may well form the model for the European telecommunications industry over the next decade.

It makes a poignant contrast on the one hand, the beleaguered, privatised British Telecom, operating in a highly liberalised market and shuddering under repeated charges of inefficiency; on the other, a committee of West German sages arguing that the best way of assuring a quality service lies in moderate liberalisation and gradual change.

There is little doubt that, after 23 years of exhaustive and sometimes fraught discussions, the main items of the West German programme will be accepted. At the same time, it is becoming increasingly likely that the West German approach will be widely followed in the rest of Europe.

The European Commission's framework proposals for the industry, published earlier this year, are not far from the West German pattern; the Netherlands will be moving in roughly the same direction when it launches its telecommunications reform project in January; and the French plan, sketched out by Jacques Chirac's right-wing government, will be similar in shape if it ever comes to the statute book.

The crucial difference between the two attitudes to change lies in the depth of the British commitment to the market system. The new era in European telecommunications will push the region well down the road towards a more competitive environment. But only Britain has dared, or been foolish enough, to take the critical decision to introduce market forces to the basic telephone network—the system of lines and linkages which many economists regard as a natural monopoly.

This failure of the Europeans to follow the British path, blazed by the UK Government, sets the scene for an intriguing ideological battle.

Behind the movement for reform lie new market forces, unleashed by technological change and the convergence of telecommunications with data processing. Proponents of liberalisation argue that the benefits of these developments, in terms of innovative services and cheaper prices, can best be achieved by subjecting the industry to the forces of competition in every sector of the market. But the moderates believe that introducing it into the basic network is too difficult and dangerous to attempt.

My belief is that if we go about reform in the usual thorough German way, the results will be terrible. Wolfgang Kaiser, director of the Telecommunications Institute at

European telecommunications



Ian Vallance (left), head of Telecom, and Christian Schwarz-Schilling, the Bundespost chief.

Crossed lines on the market view

By Terry Dodsworth, Industrial Editor

Stuttgart University, told a recent conference in Berlin, "Evidence that complete liberalisation will bring significant improvements has not yet been produced. We have to change the infrastructure in such a way that we maximise our advantages and minimise our disadvantages."

The result of this attempt to achieve a balance of advantage in the West German telecoms sector is a careful compromise. Competition will be encouraged in the supply of equipment to the network and private companies, as well as in value added services—information systems which use the telephone network to deliver data to their customers. The Government will also aim to reduce prices and there will be a drive to cut the tariffs of lines leased from the Bundespost to carry heavy business traffic.

But the Bundespost will retain its network monopoly and its right to compete in all areas of the market.

This pattern of reform underscores the strength of the

market pressures, which are stimulating change in areas where the new wave of international competition has been felt most strongly.

In equipment provision, for example, it has been evident for some time that increasing research and development costs for large switch and transmission systems have forced smaller companies to merge or leave the business. Countries which have traditionally supported these companies—on strategic, technological and employment grounds—are thus being compelled to adopt a more flexible approach, which will allow the industry to be rationalised through alliances and mergers.

Similar market pressures are beginning to emerge in network services through the development of international business traffic. Corporate users, by far the biggest contributors to the profits of the telephone monopolies, have begun to compare their communications costs in different countries and to lobby vociferously when

they feel they are being overcharged.

West Germany has come out particularly badly from these comparisons, which suggest that for some leased lines customers are paying four times as much as they would do in the UK. This has given users such a strong stick with which to "beat" the Bundespost that Gerd Wigand, a member of the Commission preparing the telecommunications report, suggested at the Berlin conference that if the price of leased lines had been reduced earlier, the drive for reform would have been halted.

"The communications cost of doing business in West Germany has been driven so high that it has become a limiting factor for business," said another delegate. Several executives spoke of international companies which had shifted as much of their data processing as possible out of the country to reduce telephone expenditure.

The test that the West

Germans and other Europeans now face is to show that they can push these prices down by administrative action as effectively as competing networks are doing in the UK. Commission members came close to adopting the competitive option, voting 6:6 on a proposal for such a scheme. But in the end, the doubts about how to inject market forces into the network proved too much.

These hesitations were undoubtedly mixed with a reluctance on the Bundespost trade union, an army of 500,000 civil servants who have lifetime employment and dislike the idea of competition to the system they run.

Yet if the experiments in competitive network systems launched over the last few years had been unequivocally successful, it would have been hard for these objections to persist. In fact, it is clear that many West German officials are by no means sure that the UK has achieved a sufficiently positive spin-off from its reforms, despite the reduction in business communication costs since the advent of Mercury, the alternative network provider.

They are equally sceptical about the UK decision to divide its system between local telephone companies and competing long-distance services.

The West Germans talk, for example, of the dangers of eroding the principle of a universal affordable service if competitors are forced to concentrate on maximising profits—an argument which has been reinforced by tariff increases for residential customers in Britain and America. They point to the fact that both the UK and the US have turned from being net exporters of telecommunications equipment to net importers. They cite the UK failure to develop a strong international equipment supplier. And they underline the sheer logistical difficulties of introducing effective competition, illustrated by the row at BT and the struggle experienced in the US by new rivals to American Telegraph and Telephone.

Indeed, the present quality problems at British Telecom are being interpreted as those of a company that has been forced to go too far too fast. "To have launched a modernisation programme while reducing staff costs would have been enough of a challenge, say the critics, without being loaded with the responsibility of responding to the price of a competitor with lower overheads."

In contrast, the Europeans are playing safe. But by turning their back on such a radical approach, they have opened the way to a clear demonstration of the price of a competitor with lower overheads.

The Tokyo pupil at the age of 15 has a similar choice of full-time specialised technical and vocational schools open to him, with a similar curriculum mix. About a quarter of

UK education policy

A time for pride, not prejudice

By S. J. Prais and Hilary Steedman

MR KENNETH BAKER, the British Education Secretary, has asked for public comments by the end of this month on his recently published proposals for a National Curriculum. The idea of a nationally specified British school curriculum is revolutionary, though it is a step that almost all other advanced countries took long ago. That clear and consistent objectives should be set for each year of schooling, in each subject, is something that will be wholeheartedly welcomed by all concerned by the lack of efficiency of large parts of the British schooling system.

Inevitably everyone will have their own reservations on the proposed details. Ours stem from asking a central economic question: will these proposals enable Britain to match other countries in the preparation given at school for the world of work? In one important respect they will not.

Take a 14-year-old in Paris; he has available, in addition to general academic subjects, a considerable range of full-time vocational schools, specialising in fields such as building, engineering and office work. At these schools half the day is spent on general academic subjects, and half on vocational subjects. Because the curriculum is organised more efficiently, it leads to attainments in general subjects (a foreign language, social studies, etc.) at a standard at least as good as that provided for most of British pupils at comprehensive school. Vocational subjects are divided between practical work (for example, in building workshops) and technical theory. A quarter of all French youngsters emerge from such schools at ages 17 to 18 with examined and nationally-recognised vocational qualifications (for example, as fully qualified electricians, mechanics or carpenters).

The Tokyo pupil at the age of 15 has a similar choice of full-time specialised technical and vocational schools open to him, with a similar curriculum mix. About a quarter of

Japanese youngsters attend such schools.

Surprising as it may seem, vocational curricula will not become possible in British secondary schools under the present Department of Education proposals. This is reflected in the list of "foundation subjects," and the 80 to 90 per cent of school time to be devoted to them, which are specified as "good practice" by the DES, and are to guide Her Majesty's Inspectors. The new City Technology Colleges will also be restricted in this way and will not be permitted to teach too much technology. There is also the worry that the syllabuses of "foundation subjects"—which ought in such schools to be influenced by vocational considerations—will be required to follow unduly general principles; for example, science

DES establishment. Measures to reinforce technical and vocational studies as a substantial part of the school curriculum are hardly evident in the present proposals. It seems that the forces at DES that presided over the closing of our technical schools a generation ago are still in command.

The consequences of the present proposals will be that the still experimental Technical and Vocational Education Initiative and the proposed City Technology Colleges are to be shackled so that no pupil in Britain—not even in a private school—can have as thorough a technically and vocationally grounded curriculum as he or she could have in other countries.

The fall in the number of apprentices in this country, and the failure of the Youth Training Scheme to provide—at least so far—the required level of technical training and education to yield adequate numbers of skilled craftsmen and technicians, make it imperative that full-time technical schooling be promoted in every possible way. Experiences with TVET so far has confirmed—that what has long been understood in other countries—that a technical curriculum with a strong practical element rekindles the interest of many pupils who are left cold by an academic curriculum. The National Curriculum should offer the possibility for schools to extend that approach and thereby begin to make good the shortfall in Britain in technical skills at all levels that is revealed by overseas comparisons.

The National Curriculum provides the opportunity of remedying deficiencies in the British schooling system. It must not be allowed to be used as a vehicle for prolonging the prejudice against technical and vocational education which has for much too long dominated our schools.

The authors are engaged in research on vocational education in Britain and other countries at the National Institute of Economic and Social Research, London.

Mexican reforms

From the Mexican Ambassador.

Sir—Your leader "The presidency in Mexico" (September 15) contains some assertions that I would like to comment upon. It is wholly inaccurate to imply that the present Mexican Government, absorbed by the management of the debt crisis, has not paid attention to "the need to open up the political system." The fact is that this need has been fully recognised and important legislative measures to answer it have been adopted, continuing a process of political reform which has taken place over the last two decades.

Late in 1986, constitutional amendments and a new Federal Electoral Law were promulgated, the main features of which are as follows: The federal Chamber of Deputies will be integrated by 500 seats, including 100 additional seats, that will double the number of those assigned on a proportional basis to the two thirds of the total number. Besides, the procedure to distribute these seats ensures that the total number for the majority party does not exceed its share in the total vote, correcting in this way the over-representation resulting from a simple majority election system. Furthermore, the electoral processes are organised and overseen by electoral commissions at federal, local and constituency levels, in which all political parties are now represented on a proportional basis. An independent tribunal, composed by nine members not affiliated to any political party, has been established to resolve on the informalities and complaints arising from the elections. These new rules and procedures will be used for the first time in the July 1988 elections.

To state that vote-rigging has been a constant in Mexican elections is simply not true. All cases of alleged irregularities have been investigated by the electoral commissions, in which all parties are represented. When they have been found true, the votes obtained in the affected poll-stations have been annulled and, in some instances, electoral results have been declared void. Irregularities, however, have not been sufficiently widespread to warrant the annulment of state-wide elections. Elections have not been perfect, complaints have been found, but these have not amounted to electoral fraud as such.

Apparently it is not easy to understand that in Mexico, as in some other countries, a party that commands a clear majority of the electorate does exist. It is not that the majority party has "refused to accept any challenge"; rather, the opposition parties are the ones that have not been able to achieve a majority in nation and state-

Letters to the Editor

wide polls. As it is unreasonable to expect political parties to engineer their own defeat, it is adequate to expect that governments enact legislation aimed to protect the political rights of the minorities and to ensure them adequate representation. This, which is not the case in countries using the simple majority system, has been the case in Mexico and will be the case even more in the future.

Mexico's political debate is now richer; the political parties can react more freely, through mergers and coalitions, to the changing political climate. Options are freely ventilated, inside the parties and in the society as a whole, where an intense interest in the initial steps towards next year's presidential and congressional elections is manifest. In this way, the political reform is not confined to the law-books but it is feeding a quite animated political life. The legislation and the political will exist to ensure that the 1988 electoral contest will be an open, clean and authentic one. It will show, once again, that Mexicans do know what is best for their country.

Jorge Eduardo Navarrete,
8 Halkin Street, SW1.

Pensions and capitalism

From Mr P. Carroll.

Sir—Philip Chapell (September 24) seems not to recognise that the tax privileges given to retirement provision are necessary. For a young man the chance of reaching age 65, which is often the normal retirement age for men, is little more than 80 per cent. For a young woman the probability of survival to age 60 is admittedly rather better at around 90 per cent because of the superior mortality enjoyed by women and the continuing anomaly that the state pension and often occupational pensions are available to women at an earlier age than men. There are many more immediately gratifying ways of spending money and numerous other savings media from which funds can be withdrawn more easily than pension provision. Few would make adequate provision for their pensions if there were no tax advantages in doing so.

There is, however, a real malaise to which Philip Chapell has drawn attention. Pension funds are now very heavily invested in equities. But equities were designed for private

individuals who could afford to lose the whole of their investment. Equities do not match very well the liabilities of pension funds. Equities as a hedge against inflation are less justifiable when inflation has been reduced. Yet pension funds are being locked into equities when the stock market is at a peak by the working of the 100 per cent rule introduced by the Finance Act 1986. If a pension fund did switch on a large scale out of equities into fixed interest stocks it would be difficult to justify the continued use of the same standard portfolio for purposes of valuing the assets.

Perhaps Philip Chapell should really be calling for a limit on the proportion of a pension fund that is invested in ordinary shares?

Patrick Carroll,
35 Canonbury Road, NL.

Spread the VAT base

From Mr M. Welch, MEP.

Sir—My mail has been overburdened recently with demands from various interest groups demanding that I should firmly resist attempts by "Europe" to impose VAT on their particular product. Recently communications have come from builders, merchants, municipal bus companies, newspaper proprietors and now book publishers. Their demands have been backed up by a vociferous press campaign centring on the British Government's case in the European Court against the Commission's attempt to end our zero rating derogation on new buildings and other products.

This campaign appears to owe more to the desire of these industries, which for historical reasons have been free of turnover tax, to preserve their privileges rather than any rational consideration of taxation policy. It is always possible to make a perfectly plausible case for any industry to be exempted until its merits are compared with those of any other industry which is caught by the fiscal net. Indeed one can make a case for having no tax at all until one is confronted with emotive TV programmes calling for more resources to fight children's cancer or more danger money for our men in the Gulf.

Exemptions invariably produce the kind of anomaly and inconsistency that totally discredited purchase tax, not least because a disproportionate burden is necessarily imposed on

those goods, which are taxed, who pay the VAT, and reduce the rate to 5 per cent? This would at one stroke make the system more efficient, far easier to administer and save us from having to read the self-serving chauvinist rubbish by which the VAT has been delayed in recent months.

Michael Welch,
181 Town Lane,
Whittle-le-Woods,
Chorley, Lancs.

Stripped of mythologies

From Mr D. Nicholas.

Sir—John Lloyd's pessimistic piece on race (September 21) suffers in the first instance from a problem of definition. Having acknowledged that the term "racism" confuses more than it describes, as if to prove the point he then continues to use such expressions as "multiracial society" and "racially balanced," when what he is clearly describing are the effects of a multi-cultural society.

More serious though is the contention that such discrimination is unlikely to be susceptible to solutions based on individualism or the market-place. Surely, quite the opposite can be argued strongly. "Race" is an abstraction—and an unscientific one at that—and like all collective entities does not really exist other than as a verbal category. The ethos of Margaret Thatcher's Britain, if it does nothing else, will increasingly force men and women to confront each other as particular individuals, stripped of the protective mythologies of group or class membership.

Faced like this many of the dilemmas that simply wither away far more effectively than state imposed remedies which tend to institutionalise and thereby perpetuate a "non-problem."

David J. Nicholas,
5 Howard Road,
Coulston, Surrey.

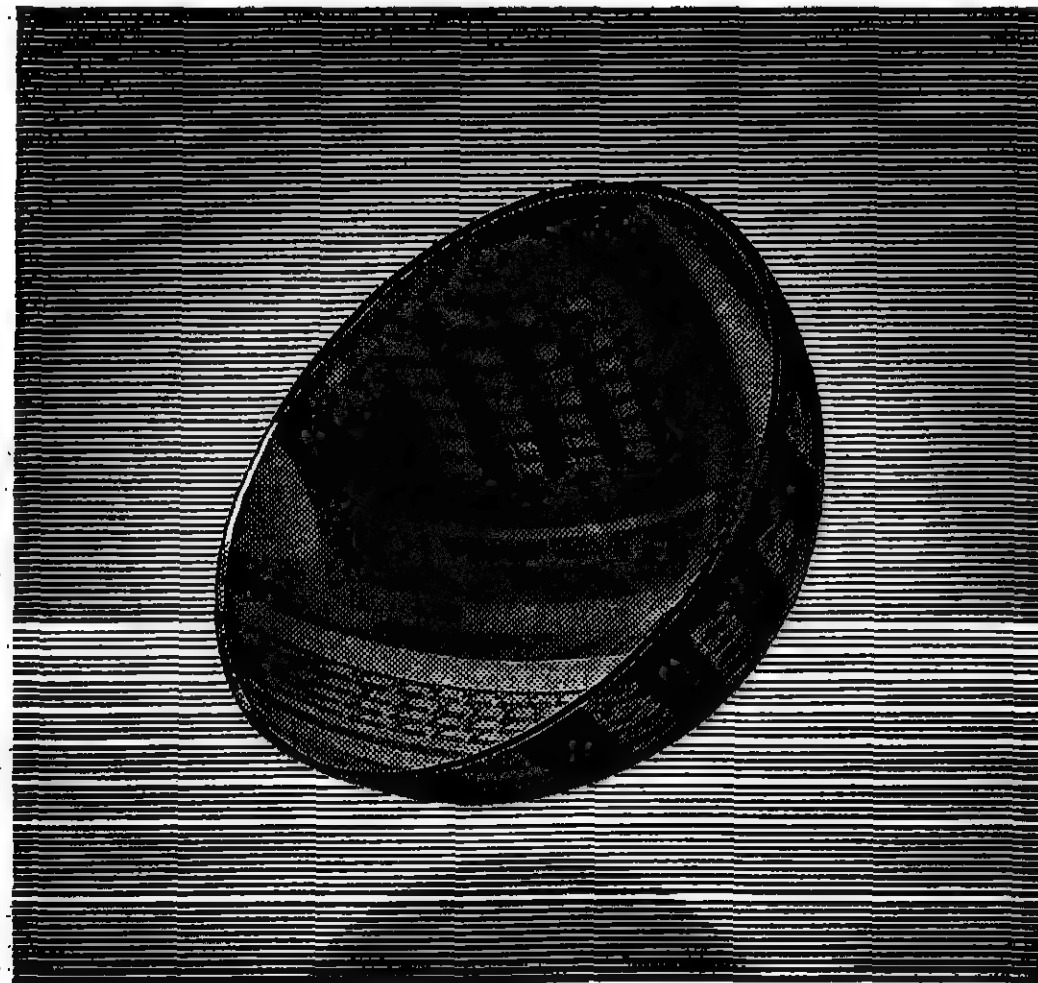
Yetis alive in the City

From Mr E. Rombach.

Sir—May I bring to your notice yet another creature who has joined the Yuppies and Dinkies in our financial markets, namely, the Yeti. To enlighten other readers who are, like myself, dinosaurs and, I shall explain that the initials Yeti, stand for Young Exceptionally Tedious Idiot. While these pretty creatures confined their activities to gambling in the foothills of the Himalayas, they were comparatively harmless. With their arrival in increasing numbers in the City, however, I fear for the future of our financial institutions.

Balfour A. Rombach,
5 The Crescent,
Sevenoaks, Kent.

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Anatole Kaletsky on Wall Street Unfriendly knock on bank door

WHEN THE liberal successor to Alexander Hamilton, the first US Treasury Secretary, comes knocking at the door of Number One Wall Street, a financial drama of rare fascination is in the making.

The \$1.4bn takeover bid for Irving Bank by Bank of New York, announced on Friday, may be no big deal by the gargantuan standards of contemporary Wall Street; but it has more than enough local colour and precedent-breaking uncertainties to keep the arbitrageurs glued to their computer screens.

The first question is simply this: can a hostile bid for a US bank succeed? If this takeover happens, the blue-blooded Bank of New York will have added another distinction to its historic pedigree. Not only will it be the first bank to have been founded in the US (by Hamilton, in 1784); it will also be the first, at least in living memory, to have succeeded in an unfriendly and unsolicited merger.

Since the notorious bid for Chemical Bank by Mr Saul Steinberg collapsed 20 years ago, the US banking community has managed to remain aloof from the upheavals of corporate raiding and merger mania. With the withdrawal of First Interstate's bid for BankAmerica earlier this year, the message seemed to be confirmed: the banking industry was definitely out of bounds for hostile acquisitions.

However, the reasons why banks remained untouched by merger mania were never quite clear. The regulatory prohibitions against inter-state bank mergers were obviously part of the story. And as the regulations began to loosen, the ready availability of failing banks which were all too willing to be taken over at knock-down prices, was another reason why hostile mergers were so rarely tried.

The fact that BNY's cash and securities offer of \$80 a share represented a premium of 16 per cent on Irving's share price, indicates how far from anybody's mind was the idea that banks such as Irving could become the victims of a takeover bid.

If anybody had thought of the possibility of large-scale bank mergers in New York, however, Irving and BNY would certainly have looked like prime candidates for combination. Each has assets of around \$20bn, which put them far below the big league of great money centres banks on their own; but together the combined entity, with \$40bn of assets, would be within shouting distance of Bankers Trust and in a position to compete strongly.

Just as important, Irving is BNY's prime competitor in several of the lucrative trust, custody and clearing services which both banks provide for the securities industry of Wall Street. Indeed, if this were any other industry, consolidating these service functions would simultaneously be the most powerful incentive for the merger and the strongest reason for questioning it on anti-trust grounds.

BNY is the biggest clearer of government securities on Wall Street, while Irving is the second biggest issuer of American Depositary Receipts for foreign companies listing their shares on US stock exchanges, while BNY is the third biggest - together they would rival, or possibly even overtake the present leader, Morgan Guaranty.

Similar stories can be told about lending to the securities industry, trust services for mutual and unit trusts, corporate trusts and securities custody. Could these overlaps raise anti-trust objections, either at the Federal or the state level?

Outside the banking industry, they well might. But within banking, such questions have rarely been posed, and never answered.

Another fascinating question relates to BNY's intentions for Irving's Third World lending. The plan is to sell \$500m of Irving's LDC loans. But where would the merged bank find any buyers, and would the sales fetch anything like the \$380m which BNY seems to be assuming?

Finally, of course, there is the most important question in any contested takeover: Will another bidder enter the fray? A foreign bank could easily be attracted to Irving's prestigious Wall Street franchise.

Of course, in that case many of the potential savings from consolidation and eliminating overlaps would go out the window - but that could be the best reason for Irving to rush into the arms of a foreign suitor. Eliminating overlaps is not much fun if you are the overlap.

As for the price, \$80 a share, a price-earnings ratio of 12 and a premium of 16 per cent to book value may seem fairly generous by New York standards. But who can say how much a Japanese institution might pay to hang its name plate on the door of Number One, Wall Street?

William Dawkins in Brussels considers the prospect of plant closures

Crunch time for European steel

INDUSTRY MINISTERS of the European Community reached unusual unanimity last week when they agreed to stop steel output controls until they get guarantees of deep cuts in the industry's 30m tonnes of overcapacity. The question in the minds of steel company executives now is which of them will have to make the sacrifice.

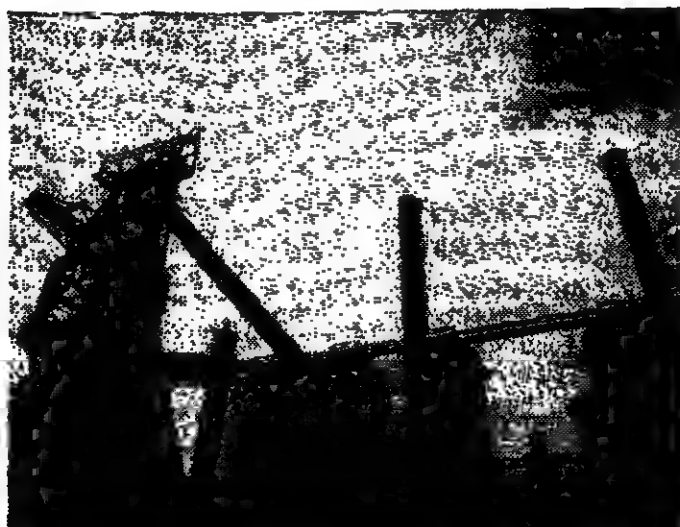
The industry ministers are handing the task of obtaining the guarantees to a panel of three, to be appointed soon by the European Commission. The panel's uncomfortable job involves deciding which regions will lose the 80,000 jobs expected to come out of the sector between now and 1990.

Community steelmakers have already shut nearly 32m tonnes of capacity since the turn of the decade, leaving a present total of 140m tonnes. The last round of cuts came mainly from smaller mills making long products, but the next will come from larger integrated plants. Many of these are publicly owned enterprises in regions of already-high unemployment.

The hard kernel of the problem is the 10m tonnes overcapacity concentrated in hot-rolled strip mills, the biggest single area of overcapacity in sheer tonnage terms. A cut here would go a long way to restoring the industry to full health. Choosing between steelmaking winners and losers is fraught with traps, however.

Comparison of capacity use shows apparent scope for moving production from closed mills to those with spare capacity. The average EC hot-rolling mill ran at an unsatisfactory 70 per cent of capacity last year, according to industry estimates.

On the surface of it, mills running below that rate should go. Yet the lowest capacity use in



Steel company chiefs are waiting to see where the axe will fall

the EC, 65 per cent, was at the highly profitable Hoogovens plant in the Netherlands. The highest at 80 per cent was in one of Europe's least profitable steel companies, Usinor-Sacilor of France. Its loss-makers are mostly in long products rather than flat-rolled capacity, but its plants are busy enough to make a move of production difficult.

Straightforward profit might be another criterion, but experts argue that they are not in themselves a failsafe guide to viability. They point to British Steel, which unveiled impressive net profits of £178m (\$290m) for the year to last March, a performance artificially helped by the impact of the pound's weakness on the group's export competitiveness.

A look at British Steel's gross rather than net margins, however, begs questions over the real extent of its recovery. At 8 per cent they come out well below the 13 to 14 per cent which the European Commission considers to be the least a viable steel company needs to cover depreciation and debt charges.

According to the Commission's gross margin test, the most competitive hot rolling mills in the EC include Hoogovens and Sidmar in Belgium, while the death knell should sound for Cockerill-Sambre and Boel in Belgium and Italsider of Italy.

A closure of Italsider's Bagnoli plant near Naples and shift of its production to Taranto is considered technically feasible, apart from the political rumpus such a move would create. Similar transfers could work between Cockerill-Sambre's Charleroi and Liege plants and British Steel's Ravenscraig pro-

duction could in theory be moved elsewhere within the group.

But all this ignores the growing realisation within the industry that the seat of the problem is in West Germany, by a long way the EC's biggest producer of hot-rolled products. With six major rolling mills Germany should have more scope to shift production between plants.

The West German industry also has scope to tidy up the series of historical accidents which left it with many different parts of the steelmaking process in the wrong locations. One example is Klockner's rolling mill in Bremen, which has to be fed with slabs imported from Osnabrück. Attempts to sort out the tangle four years ago came to nothing because the companies involved could not agree on merger terms.

A model for the kind of arrangement that the West Germans failed to get is the co-operation deal struck between Arbed in Luxembourg and Cockerill-Sambre in Belgium two years ago, in exchange for closures on both sides. Arbed's steel cuts, however, its industry is already facing 20,000 to 30,000 job cuts and West Germany's six large rolling mills are among the EC's better performers, certainly by the Commission's gross margin test. Montedison's capacity use is in line with the EC average, at more than 70 per cent.

By any criteria one cares to choose, the Community's steel panel will be wrestling with some of the toughest dilemmas in the next few weeks.

Montedison in \$785m rights issue

Continued from Page 1

total shareholders' funds. The money is to be raised by the issue - in the period from December 17 to 28 - of 540,000 new ordinary shares, priced at £1,900 each, representing a discount of 13.6 per cent against Friday's closing Montedison share price of £2,198.

One new share will be offered for every five ordinary or savings shares already held. An extraordinary shareholders' meeting will be asked on November 10 to approve the operation.

Montedison said yesterday that \$500m of the new share issue, or just over one-third of the total, will be placed in New York by Wertheim Schroeder, the investment bank that has agreed to acquire rights from shareholders and place the new shares on American Depositary Receipts (ADRs).

If Wertheim succeeds in placing all these shares, the effect would be to float an additional 5 per cent of Montedison's share capital outside Italy. At present roughly 15 per cent of the group is controlled by foreign investors.

Ferruzzi, the Ravenna food and agricultural products conglomerate which owns 38.1 per cent of Montedison, is expected to take up its full allocation of rights.

This means that Mr Raul Gardini, the chief executive and majority shareholder of Ferruzzi, will have to find \$307m to avoid dilution of his Montedison stake.

Aside from the \$155m being spent on his stake in Ferruzzi, Montedison is seeking a further 3 per cent of its share on the New York Stock Exchange, which will cost it around \$60m.

A further \$500m has been committed by Montedison recently in two other operations.

These are its public offer to buy out the 25 per cent minority of Farmitalia Carlo Erba, its pharmaceutical subsidiary, and its 100 per cent control of Farmitalia; and the Montedison joint venture in Italian petrol refining and retailing agreed last week with Shell Oil.

In the past two years Montedison has spent a total of £1,600m on large-scale diversification efforts.

Continued from Page 1

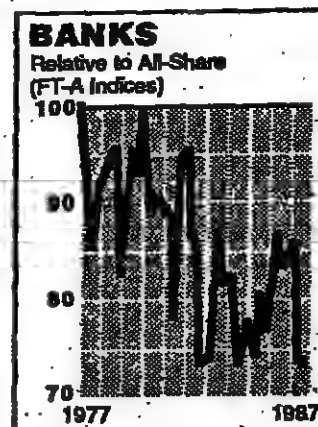
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The military spokesman acknowledged that the coup would have serious consequences for the economy, which is dependent on tourism and the Indian-dominated sugar industry for its foreign exchange earnings. 'You must understand that the Indians want Fijians to see their own aspirations for their rights in economic terms,' he said.

THE LEX COLUMN

Breaking up is hard to do



Until now, the ultimate authority on the question of who is fit to control a bank has been the Bank of England. In practice, this will probably remain true in most cases. But applicants rejected by the Bank will now be able to appeal to the new Banking Appeals Tribunal set up under the terms of the Banking Act, and thereafter, if really determined, to the High Court, where the argument can be conducted over such legal specifics as the checklist for qualifications set out in the Act.

All this applies, of course, at a shareholding level of only 15 per cent. Anyone clearing that hurdle and going for full control will risk being tripped by the Office of Fair Trading on grounds of competition policy or national interest, the catch-all nature of which was vividly illustrated by the fabled rejection of Hongkong & Shanghai's bid for the Royal Bank of Scotland. As a last throw, the Treasury can use the Financial Services Act to block a bidder from a country which does not offer reciprocal access.

But that is an argument which works more against the UK than for it. Though the authorities point amply to the number of foreign banks doing business in London, they do so chiefly through branches. When it comes to owning deposit-taking foreign subsidiaries, it is the British who set the pace, not only in the countries of the old Empire but in the US and Europe. Granted, other countries are not in the habit of letting their big clearing banks fall under foreign control, and the Bank of England is entitled to ensure that it keeps a grip on the clearing system for wider economic reasons. But there is a hint of protectionism in the British attitude to smaller banks too, current going-on at Guinness Mahon and Hill Samuel notwithstanding.

International comparison also suggests that the UK is out of line in the matter of banks being controlled by domestic non-bankers. It is argued that this risks incestuous relationships and conflicts of interest, with the proprietor demanding preferential loans for his non-banking business and so forth. This does not seem to apply in West Germany, or to the Suez group in France, whose banking side seems to coexist peacefully with its industrial interests. In the US, certainly, the opposite case obtains; the Fed might permit IBM, say, to buy Citicorp, but only if it sold its computer business.

As to hostile takeovers, the banking community opposes them on the grounds that they could destroy a bank by causing a management exodus, and could also trigger a flight of deposits. The first of these arguments could apply equally to any business based on people. The second, which is strongly supported by the Bank of England, is in turn based on the undoubted fact that the banking system depends on public confidence. But this argument has too often been used by the banks to get away with things, such as their stubborn refusal in the past to make any significant disclosure of their results to shareholders.

Whether intentionally or not, the Banking Act will have the radical effect of exposing these arguments to judicial review.

Banking control

The abortive approach by Saatchi & Saatchi to the Midland Bank has a number of thought-provoking angles, but the most timely is the question of who is a fit and proper person to own a clearing bank. Historically, the question would never have been raised; for the authorities as well as the banking community, it was self-evident that British banks should be owned and run by British bankers - no outsiders, and no

damned foreigners either. But with the globalisation of financial markets - the Saatchis are right about that, at least - the climate has been changing. This Thursday sees the arrival of the Banking Act, which by making the 'fit and proper' question a matter of legal definition makes it the more likely that one of these days there is going to come under outside control.

International pressures aside, many of the arguments for treating bank takeovers as a matter of legal definition makes it the more likely that one of these days there is going to come under outside control.

The history of Inncorp, Earl's demerger attempts is not inspiring. In the cases of Erel and London and Northern, it did little more than cover its costs. To gain any sort of credibility it must do more this time round - and it should not be forgotten that in its pursuit of Erel it introduced a cash alternative at a later stage. To do the same for Storehouse, involving the underwriting of one company's shares to buy another 45 times its size, would be a triumph for the underwriters but not necessarily for common sense.

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British Labour Party set for sweeping review of policies

By Peter Rodell, Political Editor, in Brighton

THE BRITISH Labour Party conference is today set to back a far-reaching review of its policies on a wide range of issues, including the weekend about how far present economic and defence commitments should be revised.

Sharply divergent views emerged during an almost continuous series of meetings of various factions.

These focused on defence and, in particular, on the call by Mr Bryan Gould, the party's trade and industry spokesman, for the scrapping of wider share ownership as part of the updating of Labour's appeal after three successive general election defeats.

Mr Gould said: 'We cannot put our principles into practice unless we get away from the image of a party which is reactionary, constantly defending the status quo and always holding people back.'

Advocacy of increased share ownership as a way of increasing electoral support was, however, described as 'nonsense' by Mr Ken Livingstone, the new left-wing Labour MP who is a rival to Mr Gould for a place on the party's national executive committee.

Other hard left leaders and leaflets warned of the dangers of a drift by the leadership away from socialism and towards the ground occupied by the Liberals and the Social Democratic Party.

Mr Gould later sought to clarify his position and indicate that he was not 'proposing a bonfire of commitments and principles.'

He saw wider share ownership as a means of offering employees a real stake and say in the companies for which they worked. However, even some in the centre of the party felt that Mr Gould may have gone out on a limb and yesterday Mr Robin Cook, the social services spokesman, remarked: 'I've tried it with water and with ice but I still have difficulty in swallowing wider share ownership.'

Nevertheless, the committee's statement, 'Moving Ahead', and resolutions calling for a policy review to broaden support and attract 'the relatively affluent', especially in southern England, are certain to be approved by the conference this morning.

Mr Neil Kinnock, the party leader, will tonight make plain in a pre-recorded BBC television interview that policies will have to be tested to be acceptable to the party and the public and to the realities we shall face in four or five years' time. He says in the programme that the policy review is as applicable in defence as elsewhere.

In a BBC interview broadcast yesterday Mr Roy Hattersley, the party deputy leader, went further in arguing that the case for re-examining defence policy was more than that of other policies.

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World Weather

Area	Temp	Wind	Cloud	Pres	Humid	Visib	Notes
Alaska	50-60	10-15	Partly	1015	70	10	
Canada	40-50	10-15	Partly	1015	70	10	
USA	60-70	10-15	Partly	1015	70	10	
UK	15-20	10-15	Partly	1015	70	10	
France	15-20	10-15	Partly	1015	70	10	
Germany	15-20	10-15	Partly	1015	70	10	
Italy	15-20	10-15	Partly	1015	70	10	
Spain	15-20	10-15	Partly	1015	70	10	
Portugal	15-20	10-15	Partly	1015	70	10	
Japan	15-20	10-15	Partly	1015	70	10	
China	15-20	10-15	Partly	1015	70	10	
India	15-20	10-15	Partly	1015	70	10	
Australia	15-20	10-15	Partly	1015	70	10	
New Zealand	15-20	10-15	Partly	1015	70	10	
South Africa	15-20	10-15	Partly	1015	70	10	
Argentina	15-20	10-15	Partly	1015	70	10	
Chile	15-20	10-15	Partly	1015	70	10	
Peru	15-20	10-15	Partly	1015	70	10	
Brazil	15-20	10-15	Partly	1015	70	10	
Colombia	15-20	10-15	Partly	1015	70	10	
Venezuela	15-20	10-15	Partly	1015	70	10	
Caribbean	15-20	10-15	Partly	1015	70	10	
Central America	15-20	10-15	Partly	1015	70	10	
South America	15-20	10-15	Partly	1015	70	10	
Antarctica	15-20	10-15	Partly	1015	70	10	

Post-coup talks take Fiji step nearer to republic

Continued from Page 1

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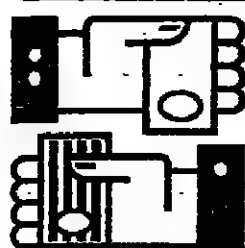
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SECTION III

FINANCIAL TIMES
SURVEY

As the IMF assembles in Washington, there is a plausible case for optimism. But private deliberations will be

less sanguine than public

reassurances, warns Philip Stephens; and ministers must acknowledge that indicators suggest that present growth and trade patterns are unsustainable.

Brighter but not much

AN ACCELERATION, albeit modest, in economic growth, a new realism in the handling of the debt crisis, and an improving pattern of world trade will be the optimistic outlook on offer from the West's leading economic policymakers this week. Few, with the exception perhaps of Britain's Nigel Lawson, will claim that their economic growth rates are yet matching their potential. Fewer still will assert that the problems posed by still-huge trade imbalances and rising protectionist sentiment have been solved.

But, in the run-up to their annual get-togethers in Washington this week, finance ministers and central bankers from the industrial nations have been carefully nurturing a sense that the outlook is brightening.

There are some positive signs.

February's Louvre accord to stabilise the dollar is seen by Europe and Japan at least, as far more successful than either the financial markets or economic commentators have given them credit for.

Despite bouts of extreme turbulence on foreign exchange markets, the dollar's value against the yen and against the D-mark is little different from

when the agreement was last re-affirmed in April.

If co-operation in exchange market intervention has sometimes been half-hearted, Japan and the UK have borne the brunt as the US Federal Reserve has remained in the background, co-ordination of monetary policies has been better.

The US has acknowledged the inevitability of higher interest rates, while West Germany and Japan have put monetary targets aside in order to keep interest rates relatively low and widen the differential with the US. Japan, whose finance minister Mr Kiichi Miyazawa was forced into a succession of emergency economic packages in response to the yen's previous appreciation, at last seems to be showing a strengthening domestic growth rate. Mr Miyazawa, whose easy grasp of international issues is in stark contrast to the traditional insularity of Japanese policymaking, has also signalled that Japan is ready to take a leading role in efforts to defuse the debt crisis.

The US Budget deficit, seen as at the heart of the country's massive US current account deficit and the parallel sur-

pluses in Japan and West Germany, looks set to fall by \$60bn to \$100bn this year.

In West Germany the pace of growth remains extremely sluggish, but Mr Gerhard Stoltenberg, the country's finance minister, will at least be able to promise a DM14bn package of tax cuts in January.

Shifts in trade volumes also look encouraging. Although the nominal US deficit and the West German and Japanese surpluses have been relatively static, the terms of trade effect of the dollar's depreciation has marked a sizeable shift in volume trade flows.

Measured in constant dollar terms, US exports during the second quarter of this year rose by around 13 per cent at an annual rate against an increase in

imports of a little over 5 per cent. The latest Japanese trade figures have shown an impressive rise in imports, bringing predictions from the Tokyo government that its surplus will fall by around \$10bn this year.

The reason d'être of the Louvre accord is to allow more time for this process to continue - for resources in the US to be shifted into exports sector and for Japan and West Germany to become less reliant on export-led growth.

If all this adds up, however, to a plausible case for optimism, the private deliberations between policymakers this week will be far less sanguine than their public reassurances.

Although growth is expected to accelerate next year, the pick-up may be barely measur-

able. The IMF is forecasting that taken together the output of the industrialised countries will rise by fractionally above 2.5 per cent in 1988, compared with a figure fractionally below that in 1987.

That means that there is little prospect of any significant fall in the unemployment total, now standing at 31m in the 24 nations which make up the Organisation for Economic Co-operation and Development.

The pattern of growth - with domestic demand in the US rising less fast than output and the reverse position in the surplus countries - may be in the direction needed to erode the trade imbalances.

But, as Mr James Baker, the US Treasury Secretary, remarked earlier this month, much

more needs to be done to close the growth gap between the US and its major industrial competitors if the US trade deficit is to be reduced to a sustainable level.

For its part, the Washington Administration seems unlikely to follow up this year's cut in the Budget deficit with a further reduction in 1988. The latest calculations from the Congressional Budget Office suggest that much of the \$60bn reduction in 1987 was a one-off windfall resulting from last year's tax reform programme.

On current trends the prospects for next year are for an increase. Against that background, ministers will have to acknowledge, privately at least, that the economic performance indicators

No one would benefit if, by means of expansionary budgetary and monetary policies, involving the sacrifice of price stability, we were to achieve somewhat higher growth rates

GERHARD STOLTENBERG, Finance Minister of the Federal German Republic (pictured above), discusses the pressures facing his country's economy

SAMUEL BRITTAN, on policy co-ordination, makes sense of a buzz-word

ANTHONY HARRIS, on trends in world securities, describes how we are getting used to verligo

ALSO IN THIS SURVEY

Debt and the developing countries: two perspectives

Structural policies: the growing interest in microeconomics

The dollar: expect a further fall

Inflation: it's likely to rise in a subdued way

Tax reform: reducing rates is the economic fashion of the 1980s

Interest rates: they are rising in a way that would normally be associated with an increase in economic growth. Unemployment: fear of inflation is causing inertia

Agriculture: Support spending has spiralled

Oil: predictions of unstable prices have proved wrong

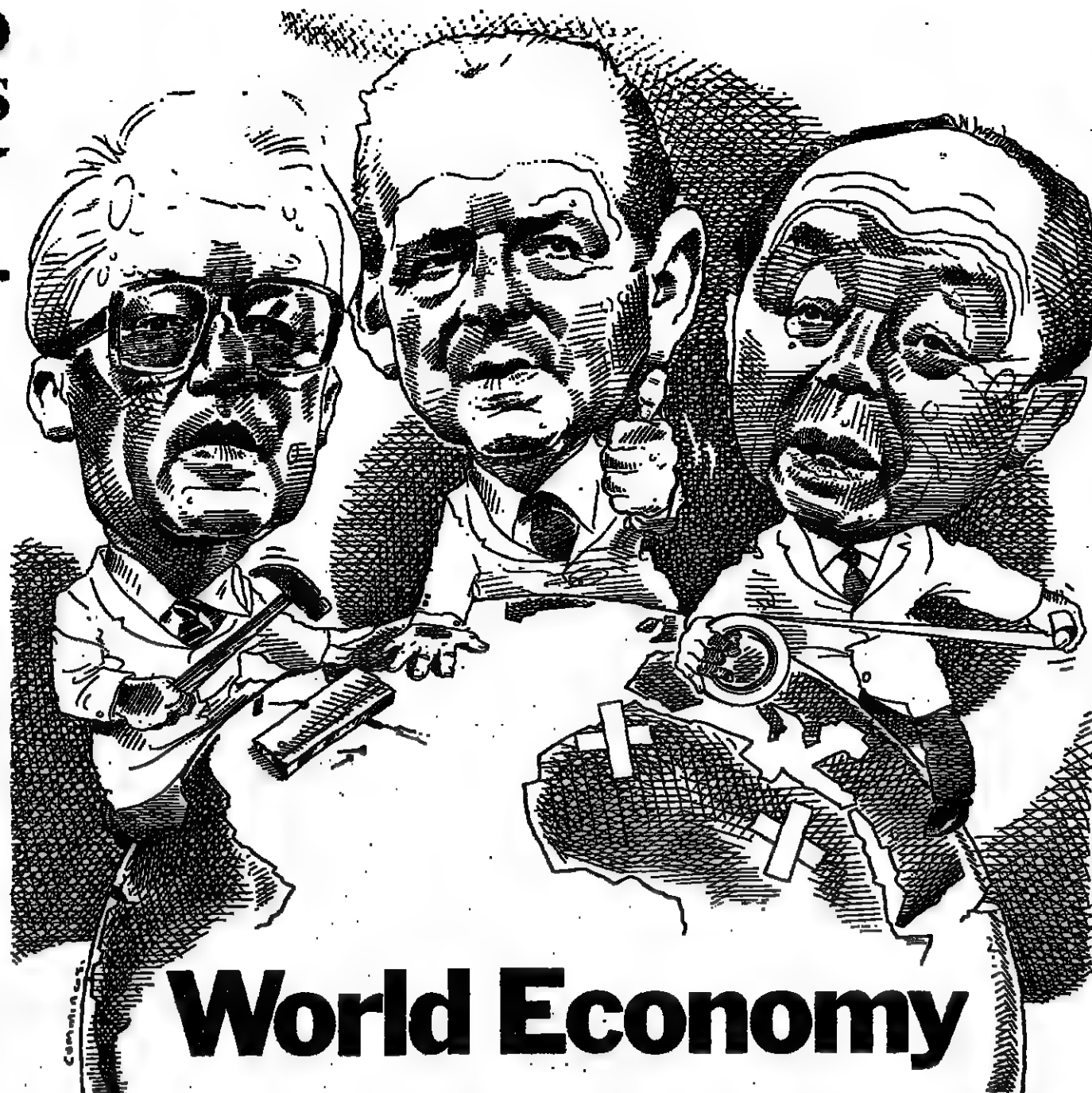
Trade: signs of protectionism persist

Profile: Kichi Miyazawa

National economies: the US, Japan and West Germany

National economies: the UK and France

Profiles: Michel Camdessus and Alan Greenspan



World Economy

ACQUISITIONS IN ITALY?

BUTONI S.p.A.
ha acquisito la totalità delle azioni della Società del Gruppo Alimentare

VISMARA

Questa operazione è stata avviata e condotta a termine da

EUROMOBILIARE

ala
ha acquisito il controllo del

CENTRO LATTE VOGHERA

Questa operazione è stata avviata e condotta a termine da

EUROMOBILIARE

A company owned by **IBEN** and **IFIL**
has acquired an important equity participation in the Group that controls

EUROMOBILIARE
has acted as financial advisor to the sellers in this transaction.

TEMPOLIBERO S.p.A.
(GRUPPO FIDAPAR S.p.A.)
ha acquisito il controllo della

MARINA DI PORTO TORONDO

In questa trattativa il Gruppo Donà Della Roca è stato assistito da

EUROMOBILIARE

SABIB
ha acquisito il controllo della

SIMONAZZI S.p.A.

Questa operazione è stata avviata e condotta a termine da

EUROMOBILIARE

AME FINANZIARIA S.p.A.
AUGURI MONDADORI
hanno acquisito il controllo della

verkerke

verkerke reproduction tv

Questa trattativa è stata avviata e condotta a termine da

EUROMOBILIARE

Costa Crociere S.p.A.
15,000,000 Ordinary Shares
15,000,000,000 10% Bona Nazionale del Lavoro Convertible Bonds into Costa Crociere S.p.A. Ordinary Shares

These securities have been placed by the undersigned among institutional and private investors

EUROMOBILIARE

BUTONI S.p.A.
ha acquisito una rilevante partecipazione nella società che produce

OLIO SASSO

Questa operazione è stata avviata e condotta a termine da

EUROMOBILIARE

TEKNECOMP
ha acquisito il controllo della

EUROMOBILIARE

ECOLAB
ha acquisito una parte sostanziale della attività della

ELTON S.p.A.

In questa operazione il Gruppo acquirente è stato assistito da

EUROMOBILIARE

Nestlé Italiana S.p.A.
ha ceduto la propria partecipazione nella

LATTE REGGIANO S.p.A.

In questa trattativa il Gruppo Nestlé è stato assistito da

EUROMOBILIARE

EUROCOM
ha acquisito una rilevante partecipazione nella

TONIC
operatore di pubblicità

In questa operazione i venditori sono stati assistiti da

EUROMOBILIARE

Polenghi
ha acquisito dalla COOPERLAT Soc. Coop. a r.l. una parte sostanziale delle attività della

ABRUZZO LATTE S.p.A.

In questa operazione i venditori sono stati assistiti da

EUROMOBILIARE

KONE
ha acquisito il controllo della

SABIM

In questa trattativa i venditori sono stati assistiti da

EUROMOBILIARE

TINT
Thomas Nationwide Transport Limited
ha acquisito una partecipazione nella

TRACOexpress

In questa trattativa i venditori sono stati assistiti da

EUROMOBILIARE

VESTRO
hanno acquisito il controllo della

SIAD S.p.A.

In questa trattativa le parti sono state assistite da

EUROMOBILIARE

stir
ha acquisito il controllo della

Industrie Buttoni Perugia

In questa transazione la

EUROMOBILIARE

Campbell Soup Company
has acquired an equity participation of

EUROMOBILIARE
has acted as financial advisor to the sellers in this transaction

EUROMOBILIARE

MERGERS & ACQUISITIONS DIVISION
Largo Donagani 1 - Milan - Italy
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WORLD ECONOMY 2

Debt and the developing countries: FT writers present two perspectives on the worsening problem

Banks will have to accept larger Third World losses

THE DEVELOPING country debt crisis has been an evolutionary process since it first broke with Mexico's cash crunch five years ago. In the past year, however, it has been evolving rather rapidly. Several key precedents have been set, and fundamental changes have occurred in most parties' approach.

The reason for the evolution was the sheer scale of the crisis. If it had not been contained by what has been seen as a series of stop-gap, muddling-through means, it would have caused no less than the collapse of the world's banking system.

So in the autumn of 1982, the International Monetary Fund, the US and other governments, the banks and Mexico, established a holding pattern which became the standard approach. Financial packages were put together for troubled debtors, involving typically:

- An economic adjustment programme approved and monitored by the IMF and supported by an IMF standby credit;
- Rescheduling of debt to governments through the Paris Club;
- Rescheduling of debt to banks agreed through advisory committees of leading creditor banks; and
- Accompanying new loans from banks of which the main purpose was to fund the payment of interest bank to the banks.

Disbursements of the loans were tied to those by the IMF which in turn depended on the debtor's adherence to its economic programme.

Underlying this approach was the assumption that developing countries were essentially facing a liquidity problem; and that economic medicine to right their payments imbalances would quickly enable them to restore their easy access to the capital markets.

This goal has steadily appeared more and more unrealistic, partly because of the persistent weakness in commodity prices which damaged debtors' export earnings. Countries increasingly rebelled against IMF strictures which tended to curb growth of their economies. In 1986, Mr James Baker, the US Treasury Secretary, encouraged a switch to a more growth-oriented strategy, involving the ad-

vance of loans designed to assist economic adjustment.

The so-called Baker Plan, however, was not really a plan, in that no concerted effort was put into making it work as one. Developing countries, instead of receiving more finance, became increasingly aware that they were suffering huge negative net transfers of funds as they sought to keep up their interest payments.

The five years of the debt crisis has therefore seen a steady trend by banks - against their will - towards concessional financing. At first this could not be contemplated, because the accounting consequences would have caused banks losses that they could not withstand. But as they have gradually built up their capital, unwelcome precedents have become more tolerable.

The small concessional moves so far, however, seem likely to be merely the thin end of the stick.

Citicorp signalled an attempt to prevent problem loan portfolios from becoming a constant drag on profits.

In the end, banks seem bound to accept much larger losses on their Third World portfolio than they have so far acknowledged.

At first, rescheduling terms were eased; maturities were lengthened and margins over money market rates were narrowed. Banks also agreed in some cases to multi-year reschedulings, instead of looking at maturities coming due in only one year. The significant aspect of this was that the periods went beyond those covered by IMF agreements.

Over the past year, more radical changes have been made as all parties have recognised that the previous approach was outmoded and stale. The troubles of Mexico and Brazil - which naturally tend to dictate the trend because they are the biggest debtors - have primarily caused the changes.

Mexico had been seen to some extent as the best example of how debt crisis management was working. But last year the drop in oil prices helped to

push it again into deep trouble. A new rescue package was put together, for the first time involving contingency financing: the IMF and banks would put up extra money if economic growth and export earnings (closely related to oil prices) were below projections. For Mr Baker, it was the biggest test of the Baker Plan and it became politically important that a deal should be struck.

Banks were asked for a \$7bn long-term loan at a new low margin of 12 per cent over London interbank offered rates. A year ago, at the IMF-World Bank meetings in Washington, the terms were forced upon leading banks over their objections that Mexico's true financial needs were unclear and the terms would be very difficult to sell to other banks.

In hindsight, they were right. Mexico now has over \$15bn in reserves, and the loan package took more than seven arduous months to assemble. Most bankers believe that this was the last "new money" package in the traditional form.

These events forced a new assessment by banks of their strategies. This was made even more glaringly necessary in February this year when Brazil, which had seemed on the crest of success during 1986, abruptly suffered a severe deterioration in its economy and trade position, and became the first important debtor formally to suspend interest payments to banks. The moratorium is still in force.

In May, Citicorp, the largest lender to many of the problem debtors, stunned the banking world by adding \$3bn to its loan loss reserves. Citicorp was the chief proponent of the theory that the handling of the debt crisis was designed to return debtors to the capital markets, and this move appeared to recognise that their return could be a long way off.

It put considerable pressure on other banks, including those in less happy financial shape than Citicorp. Mr John Reed, Citicorp chairman, telephoned only two fellow bankers in advance of the announcement, the chairman of Bank of America and Manufacturers Hanover - to do the same. They did.

The move signalled an attempt to use problem loan portfolios for profitable purposes, rather than letting them sit on

the balance sheet as a constant drag on profits. Citicorp plans no major sell-off of its loan portfolio, but a steady conversion of some of its loans into equity in its own Latin American subsidiaries, other financial services concerns, and even non-financial companies following a relaxation of Federal Reserve curbs on the latter. Other banks have embarked on similar plans.

Meanwhile, however, the business of preparing rescheduling new loan and rescheduling packages had to continue, despite the widely received view that provisioning meant that no new bank loans could be raised.

To do this, the so-called "menu of options" approach was adopted. Loans would be made, but they would be accompanied by various alternatives designed to make it more attractive for banks to participate: debt-equity swaps, co-financing with the World Bank, trade finance, "new money" bonds substituting for loans, and so forth. "Exit bonds", which would offer poorer terms but the opportunity never again to be subject to debt rescheduling or "forced" loan requests, are in the early stages of development.

A package for Argentina was successfully completed as the first example of the menu approach, although the subsequent deterioration of the country's trade position has cast doubt on its durability. Next year, Brazil is likely to work out a similar, though much larger, deal. Given Brazil's recent demand - quickly dropped at the urging of Mr Baker - for the compulsory conversion of half the country's \$88bn bank debt into long-term, low-interest securities, there seems likely to be considerable pressure for new precedents to be set. The most likely seems to be the opportunity for banks to capitalise interest instead of advancing new money.

There remain many problems with the approach, however. For example, if a Latin American country is sufficiently creditworthy to obtain a so-called "voluntary" loan, it has to pay a higher interest rate than its less creditworthy fellow debtors. This creates a clear "moral hazard" - the worse the management of the economy, the lower the interest rate you have to pay.

Alexander Nicoll

Japan as a suitable leader

"MUST WE starve our children to pay our debts?" was the question once posed by Julius Nyerere, of Tanzania. Bankers and finance ministers checking into opulent Washington hotels for the annual IMF-World Bank meetings this month may have little sympathy for crude appeals of this sort. But they might reflect that, after a series of surprising developments in 1987, the "debt crisis" is entering a new and much less predictable phase.

Nobody at last year's annual meeting, for example, would have guessed that Japan would be willing - however tentatively - to adopt a leadership role in the crisis. Yet this seems to be happening.

Earlier in the year, Mr Yasuhiro Nakasone, the Japanese Prime Minister, promised to recycle to the Third World a portion of Japan's huge external surplus. The sum mentioned - \$20-30bn over three years - is tiny if set against the capital requirements of developing countries. But it is a step in the right direction - no other surplus country, such as West Germany, has offered to do anything comparable.

Perhaps more significant, Mr Kiichi Miyazawa, Japan's Finance Minister, has promised to put forward fresh proposals for easing Third World debt burdens at this month's meeting. He has already expressed interest in schemes that aim to convert short-term bank loans into long-term securities.

Japan's emergence as a policy-maker and opinion-former on debt would be entirely logical. It is the world's largest creditor nation. Moreover, the US is in a poor position to offer either advice or practical help. With rising domestic inflation, a weak currency and a rapidly increasing external debt, the US may itself soon face a Latin American-style adjustment.

A second surprising - and equally welcome - development this year concerns attitudes towards sub-Saharan African debtors. Who, a year ago, would have expected Mr Nigel Lawson, the UK Chancellor, to be championing a debt relief scheme for the continent?

The US proposal, which was outlined at the IMF interim meeting in April, has three elements: conversion of old aid loans into grants; lengthening of repayment periods from 10 years to 15 or 20, with a grace interval of up to 10 years; and reduction of interest rates on official debt to "well below"

market rates. Countries that could qualify for the scheme have total medium and long-term debts of around \$50bn.

So far Mr Lawson has failed to persuade his Group of Five colleagues to support the initiative. The US and West Germany are particularly chary of extending relief to anybody, however poor. But they should recognise that the Chancellor's scheme is motivated less by charity than by a pragmatic acceptance of reality.

UK officials satisfied themselves that given plausible projections for growth, interest rates, commodity prices and so forth, the sub-Saharan debtors had no prospect of servicing their debts. The economic resource cost of granting relief to people who cannot repay is zero, as Mr Lawson has recognised.

The UK sub-Saharan initiative, and other similar schemes, are likely to gather increasing support. But they raise the serious question, why should Africa be the only recipient of explicit relief? There are countries in both Latin America and Asia with very large debts, very low per capita incomes and very

The US is not well placed to help or advise. It may itself soon face a Latin American style adjustment.

poor growth prospects that are equally deserving.

Japan's tentative willingness to take a lead on debt and the UK's advocacy of African relief are examples of changing attitudes in the developed world. But the two other players in the debt saga - the commercial banks and the debtors themselves - have also modified their positions significantly.

The commercial banks, led by Citicorp, have greatly increased their loan loss reserves. Most have now provided for 25-30 per cent of their Third World exposures. In opting suddenly to raise their reserves, the banks have made a mockery of the past statements of both their chairmen and auditors. How could reserves of, say, 10 per cent have been certified as prudent and accurate in last year's accounts if three times that amount is necessary today? The debtors' prospects may have darkened, but not that much.



Mr James Baker: must know that debt securitisation is favoured

The banks have tried to present higher reserves as a responsible move that strengthens their hand in future negotiations with debtors. The likelihood is that it will do the opposite. Even before the round of increased provisions, Third World debt was trading in secondary markets at anything from 10 to 70 per cent of face value. The effect of the higher reserves was sharply to reduce the market value of the debt.

This was entirely logical: why should the market - or, for that matter, the debtors - disagree with the banks' judgment that the probability of repayment had fallen dramatically?

What about the attitudes of the debtors? These too have changed radically. In the early stages, most were prepared to accept short-term austerity programmes imposed by the IMF. These had largely counterproductive effects and are no longer acceptable anywhere in Latin America. Some countries, such as Mexico and Argentina, are persevering with growth-orientated structural adjustment programmes, but several have simply stopped paying interest.

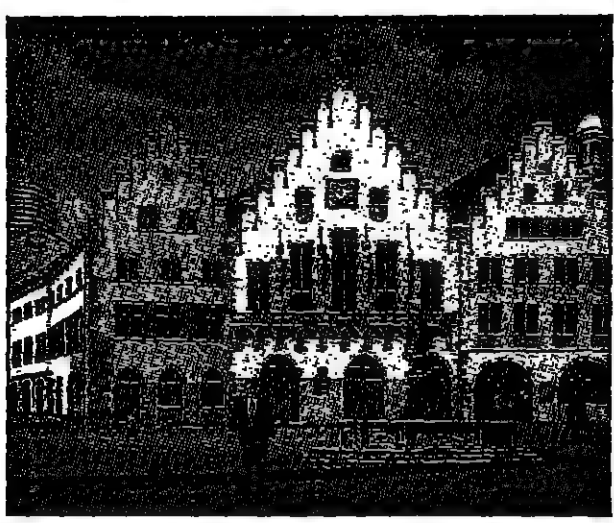
Brazil, of course, is the prime example. It has imposed a debt service moratorium for seven months, and yet does not seem on much worse terms with its creditors than before the unilateral action began. It recently had the nerve to suggest the conversion of a large portion of its short-term bank debt into

long-term marketable securities.

The proposal was rapidly withdrawn after criticism from the US. But that does not detract from its symbolic significance. Brazil has shown that a debtor country can take the initiative in proposing solutions to the debt crisis. Moreover, in urging the securitisation of its debt, Brazil was standing on very firm ground. Mr James Baker, the US Treasury Secretary, must know that securitisation of debt is favoured not only by many leading academics and commentators, but also by bankers themselves, when speaking or writing in a private capacity. The terms Brazil proposed may have been too favourable for the debtor - but that is to be expected of an opening bid in what has become a game of bluff and counter-bluff.

Finance ministers and central bankers in the rich north will not be able to veto radical solutions to the debt crisis indefinitely. Unless they can find some way of substantially raising the growth rate of world output and trade - and this looks unlikely - the debtors will eventually find a way of linking their repayment to the market, rather than the book value of their debts. Securitisation on favourable terms may not be an option this year, or even in 1988, but its time will come. It makes more sense than letting children go hungry. Michael Prowse

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How to make sense of a buzz-word

The only hope of coming to grips with the large imbalances in the world economy is to look away from short-term financial market fluctuations or business cycle movements, and take a medium-term view, writes Samuel Brittan. This helps to avoid many popular fallacies.

INTERNATIONAL economic co-ordination is usually a polite way of calling for changes in other countries' policies. Europeans call for a reduction in the US Budget deficit, or Americans call for fiscal expansion in Japan and Germany. Sometimes, however, it is used as a grand way of stating their case by policy dissidents inside their own countries. Americans who have always been opposed to Reagan-style deficit finance weep loudly and publicly about the strains it is imposing on the world economy. European Keynesians, who are in any case opposed to the "sound money" policies now in vogue, sound more impressive if they can talk about filling the holes in the world economy which might be created by a correction of either or both the US twin deficits.

International economic co-ordination is thus blocked not only by conflicting political goals, but by conflicting ideas about how both the global and the domestic economies function. So long as this is so, the "objective indicators", which the IMF is developing, are a series of numbers in search of a theory.

Do budget deficits cause a country's exchange rate to appreciate or depreciate? Does monetary ease worsen the trade balance, or may it improve it by

bringing about a real depreciation?

Not only are there no agreed answers to such questions among economists, but there may be no generally valid answer. So long as these questions are asked in a short-term context, too much will depend on the reaction of ultra-volatile financial markets, political credibility or confidence effects, which will go in different directions at different times.

The only hope of coming to grips with the large imbalances in the world economy is to look away from short-term financial market fluctuations or business cycle movements and take a medium-term view.

By "medium-term" is meant not something vaguely virtuous, but a period - say five to eight years - in which real output and income are mainly determined by underlying trends of produc-

tivity and demographic movements, and can be taken as given from the point of view of macro-economic policy, at least as a first approximation. Taking output as given certainly does not mean that economies will move to "full employment". Nor does it mean that the national or international economy is self-stabilising in any very strong sense. It simply means that we are talking about trend lines of output and real income, rather than fluctuations around these trend lines. And one can easily accept that better short-run demand management policies could have improved the underlying trends shown in the table.

All that needs to be assumed, for the medium-term approach, is its technical sense is that the stability of the rather disappointing growth rates since 1973 is fairly deep-seated for most countries; and that we should not count in advance on being able to rise above recent trends by the ingenious manipulation of monetary, fiscal or exchange rate policy.

The best simple non-algebraic discussion I know of basic medium-term relationships comes not from any of the headline names, but from a University of Freiburg economist, Oliver Landmann (*Current Issues in the International Macroeconomic Policy Debate*, available in English from Institut für Allgemeine Wirtschaftsforschung der Universität Freiburg, Europaplatz 1, D-7800 Freiburg, W. Germany). Readers are referred to it for a fuller treatment than I can give here.

Dr Landmann starts with the identity, which says that the current account deficit is equal to the excess of domestic investment over domestic savings; and the other way round for a country in surplus. This is made into an operational theory by stating that, in the medium term, the trade balance adjusts to capital flows and not the other way round.

The real rate of interest is determined in the capital market, which in turn determines the net inflow from (or outflow to) overseas, and thus both the current balance and the real exchange rate.

Rather than elaborate the theory any further here, I will follow Dr Landmann in using it to explain some popular myths and half-truths.

● **Myth No 1: Surplus countries should stimulate their economies to help reduce trade imbalances.**

To call this a myth is not to endorse Japanese or German macroeconomic policies. But extra stimulation will not correct a basic imbalance that has been with us since 1982-83. It will not increase net savings in the US, and is unlikely to reduce net savings in Japan or Germany, especially if real income is given in the medium term.

● **Myth No 2: Protectionism may be undesirable and destabilising. But it will tackle the US trade deficit if all else fails.**

This belief involves the fallacy of composition: moving from what is true for a particular industry to what is false for the national economy.

Even if there is no retaliation, protection cannot slash the US trade deficit in the medium term, unless it increases US savings or reduces US domestic investment. Unless it does, the result will simply be an appreciation of the real dollar exchange rate, which will neutralise any competitive edge given by trade policy. The one way protection might help would be if it took the form of a revenue raising surcharge which seriously reduced the Budget deficit. But if that is the mechanism, why is it preferable to a more general US tax increase?

● **Myth No 3: To solve its trade**

problem, the US needs to forget this whole "macro" discussion and concentrate on becoming "more competitive".

The view that real depreciation does not work is based on ignoring well-known lags often called the "J-Curve". There is a lag before exchange rate changes are passed through in local currency prices, and a lag before these price changes affect trade volumes. The adjustment takes longer the more volatile has been the exchange rate and the larger and more deep-seated the trade deficit.

International Growth Rates

Real GDP % change annual rates

	OECD Europe	USA	Japan	UK
1984-73	4.5	3.7	8.9	3.0
1973-79	2.4	2.6	3.6	1.3
1979-87*	1.7	2.1	3.6	1.8

* Includes Germany by OECD (June 1987)
* Source: OECD



Encouraging them to spend more wouldn't necessarily make them save less

into an improved current account.

Those who put all the emphasis on devaluation overlook the domestic savings imbalance; and those who brush aside exchange rates ignore the need for a transmission mechanism.

Dr Landmann regards the 40 per cent fall of the dollar since 1985 as providing a signal to move US resources into export and import savings, ahead of the required retrenchment of US domestic spending. But if this retrenchment does not come, inflation could be for as being reigned, and will gradually erode the newly-won US competitive advantage.

Thus the essential point is not that real depreciation is ineffective, but that, without re-

trenchment of domestic spending, it is unsustainable.

□ **Half-truth No 3: The US current deficit would benefit from fiscal relaxation Germany and Japan.**

Exchange-rate swings have provided plenty of false signals.

In contrast to the upholders of Myth No 1, advocates of this half-truth are not asking for general stimulation. They accept that, in the medium term, higher budget deficits are likely to lower savings. They simply say that the US current deficit should be tackled by reducing foreign savings, as well as by raising American savings.

The proposition is correct. It is a half-truth only because its advocates rarely realise that the "improved" world balance will be achieved with high average budget deficits, high world real interest rates, and low world investment. The policy amounts to asking the creditor countries to curb the supply of funds to finance US public and private consumption, and thereby drive up American interest rates. It is like an alcoholic asking the liquor store to increase the price of liquor.

Dr Landmann's conclusion, that the US must increase its savings rate, is inevitably prosaic after the myths and half-truths. But we are not done yet. The Freiburg writer is not innocent of Keynes. He accepts that a big reduction in the US

Budget could create short-term demand deficiency in both the US and abroad. His own solution is that monetary policy should be relaxed sufficiently to maintain the growth of Nominal GDP in any country where it happens to falter, while fiscal policy is directed to medium-term international balance.

Although he genuflects to the Bundesbank, by calling his policy a velocity-adjusted monetary objective, the rulers of the German central bank are a very long way from accepting this obligation, as can be seen by their tightening of policy this summer. No amount of emphasis on fundamentals vindicates the Bundesbank's knee-jerk technocratic conservatism.

It is not in my nature to agree with any other writer on everything; and I take slight issue with Dr Landmann's preference for each country using monetary policy to achieve its own demand objective, leaving nominal exchange rates to fluctuate freely.

Whether or not the enormous exchange-rate swings of the last few years have been strict examples of overshooting, they have provided plenty of false signals, disrupted the sectoral balance within economies, and thereby reinforced the forces of protection.

The real exchange rate changes necessary to give the right signals already take place between Texas and California, or Scotland and England, where they are called price and wage changes. The periodic French franc-DM realignments have not been notably more successful in realigning real exchange rates.

The alternative is to base national policies on agreed - if changing - exchange rate ranges. Demand management would then be assigned to the Group of Five level at which global interest rate and monetary policy would be determined. This makes more demands on international co-operation, but might give less bad signals to domestic producers than the vast gyrations of the dollar-DM, dollar-yen, and sterling-Ecu rates of the 1980s.

But, however controversial these monetary issues, the slogan to remember at the end of the day is that trade imbalances are not a monetary problem, but one of savings and investment. The role of money is to oil the wheels of the engines of fundamental adjustment.

WORLD'S

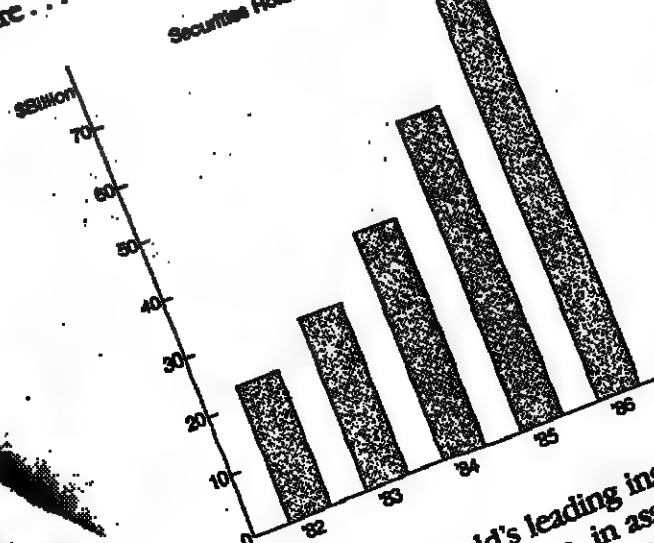
ANDICK

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WORLD ECONOMY 4

Structural policies

The micro decade

THE 1980s may be remembered in economic policy-making circles as the decade when politicians began to worry seriously about microeconomic problems. Rhetoric, as usual, is running ahead of action, but expressions like "structural rigidities" and "fiscal neutrality" are no longer utterly unfamiliar.

The interest in microeconomics marks a sharp departure from established post-war traditions in most industrialised countries. Economic policy in the past was almost synonymous with macroeconomic policy: squads of officials monitored the evolution of macroeconomic aggregates like consumption, investment and exports and formulated fiscal and monetary policies that were intended to affect the course of the economy as a whole.

By contrast, relatively little attention was paid to specific sub-sectors of the economy, such as labour markets. Little attempt was made to ensure that the rules governing the activities of companies and individuals were in accordance with the recommendations of microeconomic textbooks.

Policies advocated on social or political grounds - for example, constraints on the rights of companies to sack workers - were rarely subjected to a test of economic efficiency; nobody asked whether the costs, in terms of loss of flexibility, might outweigh the obvious benefits.

The policy focus on microeconomics was - and largely still is - reflected in the staffing of finance and economics ministries. Although many academic economists would argue that microeconomics represents the true core of the discipline, a high proportion of public sector economists would probably classify themselves as macroeconomists. Indeed, many concentrate on macroeconomic modelling and forecasting - activities whose value is questionable and which are perhaps often best left to the private sector.

Why have politicians and officials begun to think harder about structural issues? The most important reason is the fact that the standard macroeconomic prescriptions have, since the early 1970s, apparently failed to deliver the goods. On the whole, governments have been unable to combine low inflation with rapid growth and low unemployment. Microeconomic initiatives appear to offer an extra degree of freedom:

a way of raising an economy's growth rate without stoking up inflation.

Structural reforms have also struck a chord in the 1980s because governments have been keen to reduce budget deficits. Deregulation and liberalisation may be hard policies to sell to electorates, let alone to the businesses affected, but at least they do not usually cost much money. Microeconomic policies are thus popular, partly because they are simply the cheapest available recipe for growth.

What are the main structural impediments to growth and high employment? A recent OECD report, *Structural Adjust-*

Standard macroeconomic prescriptions have failed to deliver the goods.

ment and Economic Performance, emphasises the damage done by creeping protectionism in international trade. Non-tariff barriers now affect a quarter of industrialised countries' imports. Between 1972 and 1983, the proportion of world automobile trade covered by restrictions rose from under 1 per cent to nearly 50 per cent.

It also stresses the burdens imposed by rising industrial, regional and agricultural subsidies. Subsidies as a proportion of OECD industrial value added rose from around 2.5 per cent in 1980 to over 5.5 per cent in the early 1980s. Support for agriculture is even heavier: the cost in terms of reduced economic efficiency in the OECD area as a whole is estimated at over \$100bn. This reflects the extent to which government intervention has persuaded farmers to produce the wrong amounts at the wrong prices.

A third structural impediment identified in the report is the growth of public sectors during the post-war period. This has resulted in high marginal and average tax rates in most industrialised countries. The OECD calculates that by 1983 the typical production worker was facing a total tax liability equivalent to 40 per cent of his income, and a marginal rate on the last pound earned of more than 55 per cent.

Large public sectors inevitably mean heavy tax burdens.

But the impact on economic efficiency has been much greater than was necessary, because of the poor construction of fiscal systems. Most are riddled with exemptions for special interest groups. Yet erosion of the tax base means that tax rates are higher than would otherwise be the case.

Over the years, governments have also used the tax system to further all manner of political and social goals: the result is that individuals and companies are constantly persuaded to take decisions that would not be rational in the absence of special fiscal incentives. Many economists urge the creation of more "neutral" tax systems.

A fourth set of microeconomic distortions includes direct controls imposed by governments on, for example, prices, wages, dividends and exchange rates. Some of these have been phased out in recent years. Income policies, for example, are less popular than in the 1960s or 1970s. On the other hand, many OECD countries still have minimum wage laws that free-market economists believe exacerbate unemployment.

The elimination of structural rigidities can undoubtedly improve the growth potential of economies. But the scale of the prospective gains from deregulation and liberalisation are hard to gauge. Some economists, for example, have argued that the gains from introducing a neutral tax system would be worth only a fraction of a percentage point of GNP. And sceptics point out that microeconomic distortions have been more serious in Europe than in the US throughout the post-war period, yet until the 1980s, European economies enjoyed lower unemployment and faster growth.

They also note that many governments have succeeded in eliminating a range of structural rigidities since the turn of the decade. Yet the return in the shape of faster non-inflationary growth seems slow to arrive. This could be simply because structural reforms pay off only in the medium to long term.

The alternative and more depressing possibility is that politicians are putting too much faith in supply-side structural policies. One thing is certain: they will never be a substitute for the right macroeconomic approach.

Michael Prouce

The eyes of ministers and bankers are still on the dollar

A further fall looks likely

TWO YEARS after the Plaza agreement to force the dollar's value lower, finance ministers and central bankers at this month's meeting of the International Monetary Fund will still be exercised by a falling dollar and massive global trade imbalances.

Despite the large measure of stability on foreign exchange markets since the Louvre accord, the view among most economic forecasters is that, sooner or later, the dollar will have to decline further if the US trade deficit is to be reduced to a sustainable level.

The February agreement by the Group of Seven leading industrialised nations aimed to promote at least a pause on currency markets after the 40 per cent fall in the US currency's value since its 1985 peak.

The perceived risk was that continuing dollar decline would tip both the US and the rest of the world into recession. At the same time it would obscure the beneficial impact on US competitiveness of the depreciation which had already occurred.

After an initial volatile period in the immediate aftermath of the accord, when the dollar had to be propped up by co-ordinated central bank intervention, the US currency then appeared to get back on a firm footing.

The monthly US trade figures showed a gradual improvement in the deficit which, although modest, was enough to support the view that progress was now being made.

By late July and the first half of August, the dollar had started to appreciate quite strongly, partly because of speculative flows associated with tension in



Yes, it did go up for a moment

the Gulf which pushed oil prices up above \$30 per barrel.

That rebound, however, was short-lived. The publication of US trade figures for June and July showing a renewed widening of the deficit to around \$16bn a month underlined the

fact that there would be no instant solution to the imbalances.

The dollar lost 5 per cent of its value in the week after publication of the June trade figures, despite almost daily intervention in its support by the Bank of Japan. By early September renewed co-ordinated central bank intervention was needed to stop the currency's slide.

The currency markets' focus on the US deficit and the parallel surpluses in Japan and West Germany measured in dollars has obscured a significant turnaround in the volume of trade flows. The latest Japanese figures, for example, show a surge in imports and relatively flat exports, while the US data provides a mirror image.

The sheer size of the original imbalances, however, means that those volume improvements will only very gradually be reflected in the dollar trade figures. That in turn has persuaded most economists that the US currency will face renewed attacks on foreign exchange markets.

Despite this month's 14-point rise in the US discount rate, there is also a general view that, on balance, the US administration would like to see a modest further decline in the dollar, perhaps to Y135 and DM175.

In raising the discount rate, Mr Alan Greenspan, the new chairman of the Federal Reserve, signalled that he would not be indifferent to a rapid dollar slide. But he said nothing to suggest that he is intent on pegging its value indefinitely at current levels.

Mr David Morrison, Chief International Economist at US securities house Goldman Sachs in London, said he believes the dollar's trend is still downwards but is nevertheless relatively flat.

He makes the point that it would make no sense for the US to lock itself into current exchange rates which would imply a consistent loss of competitiveness, because the US has a higher inflation rate than that of its major trading partners. The US is widely expected to have an inflation rate of at least

5 per cent next year, while inflation in Japan will be nearer to 1 per cent and perhaps just under 2 per cent in West Germany.

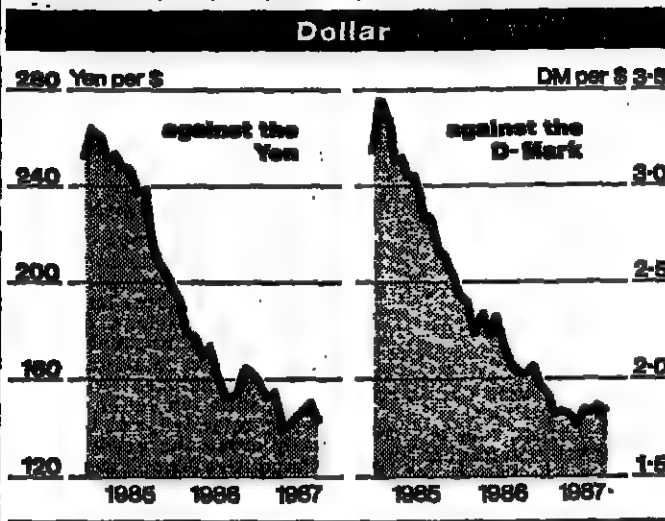
Goldman Sachs' 12-month view is that the dollar will fall to DM175, Y135 and L70 to the pound.

Mr Paul Chertkow, Director of Currency Research at the London securities house House Govett, agrees that, on fundamental grounds, particularly in view of persistent trade imbalances, the dollar should fall further.

However, the handling by the US authorities of any further modest depreciation in the dollar's value is the subject of intense speculation.

Policy has to be seen in the context of the rising protectionist chorus in Congress, which could be partly defused by allowing the dollar to fall. Against that, a continuing depreciation would threaten further rises in interest rates in the run-up to next year's presidential election.

Janet Bush



How NYK's Fine-Tuned Cooling System warms the heart of a French farmer.



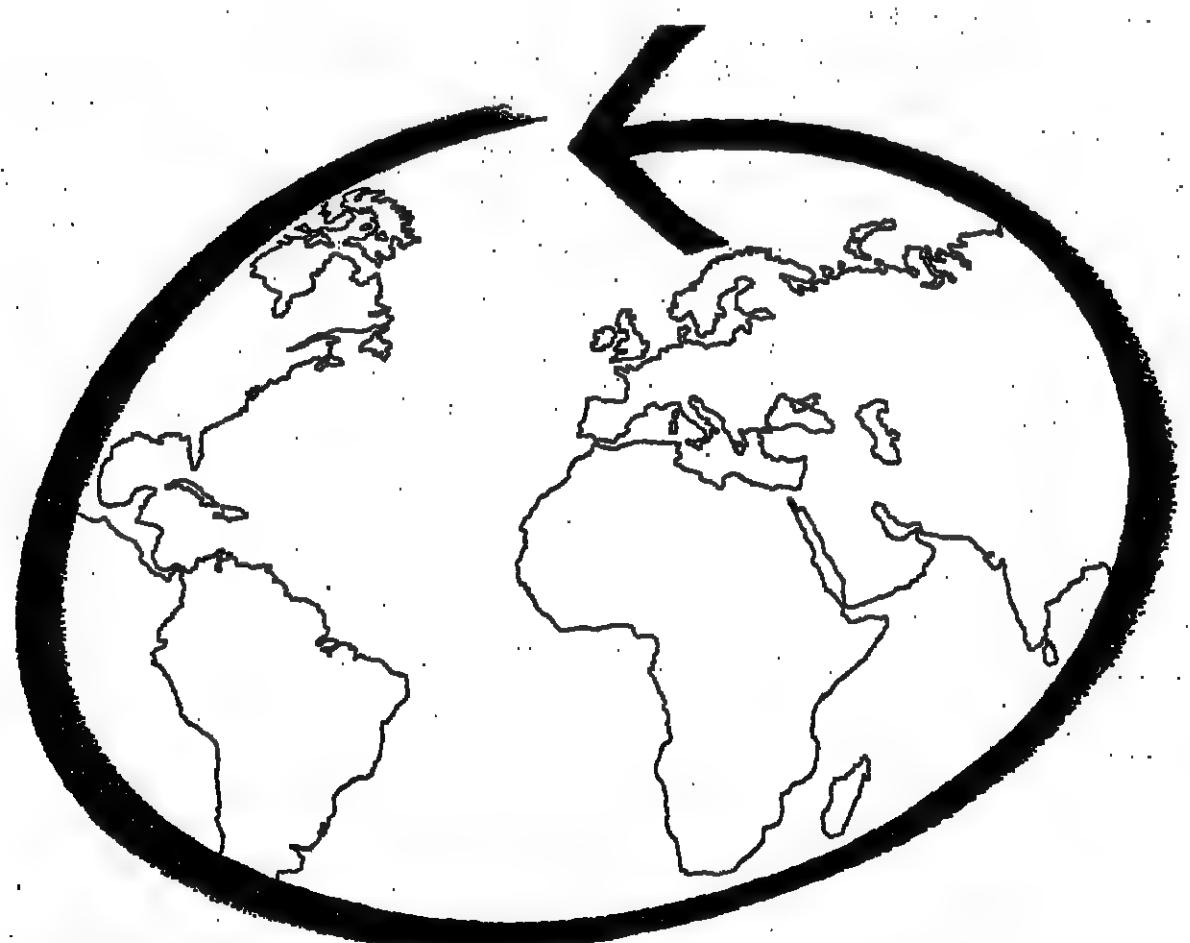
NYK's Fine-Tuned Cooling System brings the delicacy of Camembert and Brie to Japan at half the shipping cost of air freight. So naturally many more people will be buying fine French cheeses and French farmers will be smiling much more. Delicate cheeses, cherries, melons, strawberries, scallops are all perfect candidates for NYK's new Fine-Tuned Cooling System (Hyo-on). Inside these special containers, circulating air stays within 0.5°C of any level between -29.9° and 25° that you select. Humidity is also rigidly controlled. The taste — equal to that of air-flow produce — is the proof! Fine-Tuned Cooling Systems are only one of countless advanced NYK services that assure tangible client benefits. Whatever the cargo, whatever the problem, NYK has better answers for integral logistics services.



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Inflation

US likely to face pressure

A RECOVERY in world commodity prices and the far-reaching effects of the dollar's managed depreciation have helped to turn around world price trends, and it is now clear that inflation has a tough time ahead.

Most major economic forecasts suggest that inflation will continue to rise slightly from current levels over the next year or so, but that the general expectation is that it will nevertheless remain relatively subdued.

Some of the upward pressure on prices can be attributed to the earlier monetary stance of surplus countries like Japan and West Germany, whose policies have been tailored to promoting stability for the dollar.

In the US, the effects of the earlier sharp dollar depreciation are beginning to show in a marked acceleration in inflation, expected by many economists to reach 5 per cent by the end of this year.

Recorded inflation in the area covered by the Organisation for Economic Co-operation and Development had decelerated sharply in 1986, with average consumer prices increasing by 2.6 per cent, compared with 4.5 per cent in 1985.

The halving of the oil price at the start of the year provided a step reduction in input prices, while relatively sluggish economic growth ensured weak international commodity markets.

Now the OECD believes inflation will increase slightly to around 3.5 per cent this year and perhaps marginally higher in 1988.

Britain's National Institute of Economic and Social Research is forecasting that consumer prices in the seven leading industrial nations - the US, Japan, West Germany, France, Italy, Canada and Britain - will increase by 3.1 per cent this year and 3.4 per cent in 1988.

The Bank of England said in its August Quarterly Bulletin that the outlook remained uncertain. Non-oil commodity

prices have risen by some 14 per cent in SDR terms (20 per cent in dollar terms) from their trough in August last year, but the Bank noted there was some influence from strikes and other special factors. Earnings growth in most industrialised countries remains low.

Commodity prices have picked up, but the trend may not continue.

Prospects vary from country to country. In most leading industrialised nations apart from the US and, arguably, Britain, inflation is expected to return to the core or underlying rates seen before the collapse in oil prices.

Underlying inflation rates are roughly 1 to 1.5 per cent in Japan, 2 to 2.5 per cent in West Germany, probably 4 to 4.5 per cent in the US, and 3.5 to 4 per cent in both Britain and France.

In many countries, particularly in Europe, there is an excess supply of labour which should mitigate upward pressure on wages settlements as measured inflation rates edge up.

Although commodity prices have picked up, there are doubts over whether the trend can be sustained. World de-

mand is projected to be weak and developing countries, which are the key exporters of commodities, have to keep the level of sales up in order to service their debt. There is also an excess supply of agricultural produce after good harvests this year, strides having been made in technical innovation and subsidised overproducing in Europe.

The OECD said in its latest half-year report that any tendency towards a more broadly-based acceleration in the rate of inflation seemed limited to the US and Britain. In the US, labour markets appeared to be relatively tight, and import price pressures stemming from the earlier dollar depreciation seemed strong. In Britain, inflation was expected to increase due to persistently high wage growth in recent years, weaker productivity growth and the effects of last year's fall in the pound's value.

The OECD said: "In both countries, the room to absorb additional cost pressures in profit margins appears relatively limited given that the terms of trade have been developing less favourably than elsewhere."

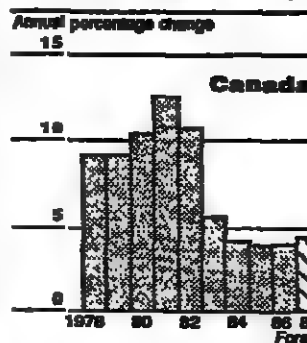
Concern about domestic monetary conditions in Britain prompted the authorities to raise base lending rates by one percentage point to 10 per cent last month. The Bank of England pointed particularly to

the persistently high level of average earnings growth and substantial credit growth as a cause for concern.

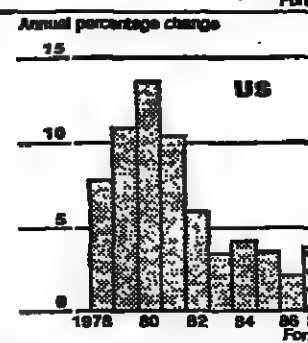
In common with other major countries, Britain has also seen an acceleration in broad money supply growth. Some of this growth can be explained - and is by the governments of the countries concerned - by the fast pace of financial innovation, but there is still uncertainty whether fast broad money growth could signify an excess of liquidity in these economies.

Broad money growth, which was boosted further by central bank purchases of dollars after

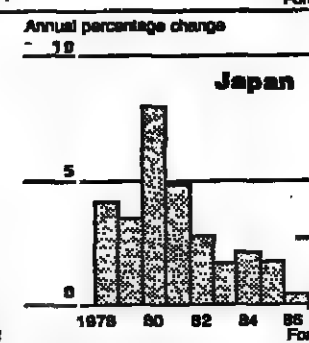
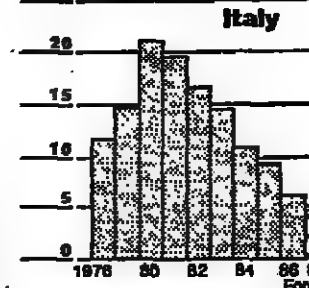
Inflation



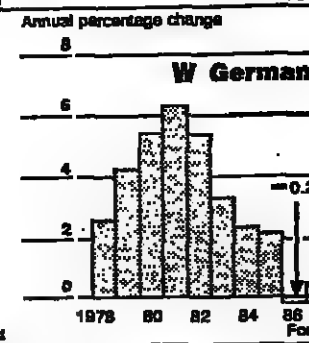
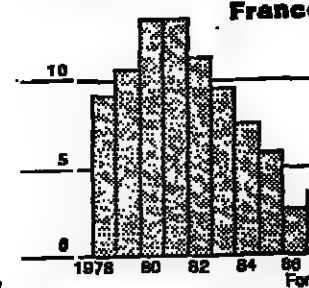
Annual percentage change



Annual percentage change



Annual percentage change



Tax reform

Working with the market

PRESIDENT REAGAN probably would not appreciate the irony. As his opponents in Congress insist that tax increases are essential to reduce the US Budget deficit, many of the US industrial partners are looking to follow its earlier example of progressive reductions in tax rates.

Tax-cutting - or, more accurately, reducing tax rates - has become the economic fashion of the 1980s, in much the same way that monetarism dominated policy-making in the late 1970s.

Much has been done already to reverse what were seen as the worst excesses of the 1970s, when marginal rates of income tax sometimes exceeded 90 per cent. Whether this supply-side fervour, however, has much further to run against a background of entrenched fiscal conservatism in Europe and Japan and the unsustainability of the US Budget deficit is more difficult to answer.

centive effect on work and risk-taking. In parallel, they increase incentives for evasion and avoidance, distort economic decision-making, and ultimately reduce the growth of output.

The plethora of concessions and exemptions that have been grafted on to tax systems with very high rates also generate inequalities between taxpayers in the same income groups, undermining, in economists' jargon, horizontal equity.

Reductions in the highest rates of tax have therefore generally been accompanied by removal of many tax benefits for the high-paid - and a hope that tax shelters and avoidance schemes will cease to be worthwhile.

The trend towards ironing out such inequalities has taken precedence over the more traditional role of progressive tax systems - the establishment of greater vertical equity through redistribution.

As a recent OECD report put it: "The income tax system is certainly a less effective tool for achieving an equitable income distribution than are full employment and well-functioning social policies."

But cuts in marginal rates are not generally introduced in isolation. As well as seeking the gradual abolition of tax privileges, governments have tended to accompany lower income tax rates with a widening of the tax base - both within the income tax system itself and by a switch to indirect taxes.

The theory is that taxes on consumption, rather than income, are closer to being neutral in their impact on savings, investment and other economic decisions. Thus, in Britain in 1979, the Conservatives' initial cuts in income tax were accompanied by a doubling in the rate of value added tax.

Widening the base within income tax systems has tended to focus on taxing sources of income - such as pensions and social benefits - which have so far been excluded, as well as the removal of direct tax subsidies.

If the present tax-cutting philosophy is widely shared by the governments of industrial countries, the practice is not as straightforward. Political and budgetary reality has proved decidedly intrusive. In the process many of the so-called tax cuts have proved illusory rather than real, involving a switch in the tax burden rather than any absolute reduction.

Britain is a good example. Although the Government makes much of its reductions in the basic rate of tax, the OECD has calculated that the overall burden of taxation actually rose from 33 per cent of national income in 1978 to just over 39 per cent in 1986. Income tax rates may have come down, but the tax system ensures that the Government's revenues actually rise each year because income tax thresholds are linked to prices and not wages.

It is not only in Britain, however, that the tax burden has risen. For its 24 member countries the OECD estimates that the proportion of national income taken in taxes rose by three percentage points between 1978 and 1985.

The latest wave of tax reductions are also likely to prove rather more modest than the raw figures suggest. In France, for example, there will be a substantial offset in the form of higher national insurance contributions. Japan, as made it clear that the cost of its income tax cuts will eventually be clawed back in the form of additional indirect taxes.

The arguments of American supply-siders - that lower taxes actually increase revenues by stimulating faster economic growth - hold little sway in Tokyo and Bonn, where officials point to the massive US Budget deficit as the clearest possible evidence to the contrary.

Philip Stephens

Mitsui Bank has been extremely successful in commercial banking throughout its history of more than 300 years. Now it is expanding its scope of business into investment banking. In the latest year, income advanced 38 per cent to ¥50.7 billion, with net worth increasing 14 per cent to ¥422 billion, and total assets climbing 17 per cent to nearly ¥24 trillion.

Mitsui also tries to be Japan's most innovative commercial bank, profiting from a comprehensive restructuring designed to exploit the progressive deregulation of domestic financial markets and the accelerating convergence of banking markets around the world.

Since 1924, when Mitsui Bank opened a branch in the city of London, it has built a powerful presence in Europe to exploit Euromarket growth and EEC moves towards banking deregulation. Jiro Hirata, a director of Mitsui Bank and general manager of Mitsui's Europe Division headquarters, discusses Mitsui's European achievements and progress, and prospects in a rapidly changing financial world.

By Brian Robins



Mr. Jiro Hirata, Director, The Mitsui Bank

Towards a Globally Integrated Bank

Mitsui: Responding promptly to market needs

Robins: Mitsui's reorganisation has fundamentally changed your bank's structure. How has this helped you in Europe?

Hirata: Enormously. We can now respond very much faster to new business opportunities in rapidly developing markets, and we have also greatly increased our professional skills. European banking, along with global banking overall, is swinging increasingly away from conventional loan-type financing towards securities financing, and bank customers are looking increasingly for new approaches and new solutions. We can now provide a very wide range of commercial and investment banking skills and services in a much simpler organisational format, including a powerful bond trading operation, specialist units handling project finance, and skilled advice on the benefits of setting up local finance companies.

We have also greatly improved our cross-boundary links—for example we now liaise very closely with New York and Tokyo as well as our European offices. So our new organisational structure means that we can now take on opportunities that we might have refused in the past because decision-making would have taken too long, service them more comprehensively and expertly, and achieve better end results. This of course is feeding back to us in terms of greater customer satisfaction and more business.

MFI's enhanced status in the Euromarket

Robins: Could you cite a specific example?

Hirata: Yes, I think Mitsui Finance International, our investment banking subsidiary here in London, is a good example. MFI played a really quite minor role in

the bond market prior to the reorganisation. But our restructuring helped MFI secure mandates to lead-manage eleven major bond issues since the reorganisation, including a ¥22 billion Euro-yen bond for General Motors, a \$40 million bond issue for Monte dei Paschi and NZ\$50 million for Prudential Funding. MFI also qualified for membership of the International Primary Markets Association, and was appointed a Reporting Dealer by the Association of International Bond Dealers, two moves which directly reflect our enhanced status in primary and secondary Euromarket activities. I think these advances provide a very clear indication of the benefits we have created.

Robins: Has Mitsui's new organisational structure brought other benefits as well?

Hirata: Yes—we have carried out a thorough review of all our European operations and set ourselves new goals. We have also conducted feasibility studies for new offices as part of our plan to broaden and strengthen the services we provide to our clients, and further increase the contribution our European operations make to bank profitability overall.

The bank's new structure

Robins: What are the main points behind Mitsui Bank's reorganisation?

Hirata: I would say there are five main points. First, there has been a shift from a traditional functional structure to a laterally expanded "wing-type" organisation, under which the bank is subdivided into numerous small, mutually cooperating professional units. On one side are the units in charge of customer relations, while on the other are more specialised sections intended to respond more rapidly and flexibly to changing situations. There are, for example, 20 different departments each in

charge of different companies, defined by their various needs and types.

Secondly, under the new system, the senior management in each business unit has much greater authority for making decisions based on its own initiative. The time taken to make decisions will be therefore much shorter than before.

As a third point, more specialised units of professionals have been established to meet more effectively the sophisticated and diverse needs of the market. More specifically, the bank has established various new "capital market" sections to respond to the increasing importance of the securities business.

The "unification of outside and inside business" is the fourth point. This means that under the new structure, one unit will be responsible for both the domestic and international business of the same client.

The fifth point is the clarification of strategies for each section. Each department has its own target, operating under the auspices of top management. Similarly, different emphasis will be laid for short-term and longer-term strategies.

Reorganisation of the European division

Robins: What are the main features of the reorganisation of the European division?

Hirata: As a rule, the head of the European headquarters has the right to authorise an application for a loan without limit, and therefore can respond more quickly to changing markets and clients' needs. There are two groups assisting him in his decision-making, one—a planning group involved in the strategy for Europe as a whole, and the other—a credit administration and research group to analyse and assist with individual credit risks. According to our information, Mitsui Bank is the

first Japanese financial institution to establish a streamlined structure to speed up the decision-making process.

Strengthening the securities business

Robins: What specifically have you achieved as a result of the restructuring of the European headquarters?

Hirata: We're putting efforts into marketing both "sovereign" loans and securities through one entity—Mitsui Finance International. We have increased the staffing of MFI especially in the field of corporate finance and trading. Also the bank has established a special conference on underwriting to study risks. In addition, we are also strengthening the structure of Mitsui Finance Switzerland, and we're applying for permission to open a local securities subsidiary in Frankfurt. In the field of commercial banking, on the other hand, we have reviewed the functions of each office, and we plan to establish strategies most suitable for each location.

The new strategies of Mitsui's European headquarters

Robins: Could you tell us a little about the strategies of Mitsui's European headquarters?

Hirata: First, we are strengthening our investment banking division. Secondly, we are emphasising profitability, and for this we are promoting new products such as high coupon bonds and Euro commercial paper. We are also promoting "off-balance sheet" transactions such as futures and swaps and other sophisticated financial products. We are strengthening our information-gathering network for different regions and markets. In addition to this, we intend adapting our offices to respond to the needs of the local markets. As part of these changes, we are recruiting qualified staff. Each of the different offices will be linked together.

In order to expand future business in Europe, we are now preparing to add offices in Luxembourg, Barcelona and Milan. With our present operation in London, which is the main centre for our strategy in Europe, we are planning to move to new premises that will house the European division headquarters, the London Branch, and Mitsui Finance International under one roof. At the new office, we plan to have a large dealing room as we believe that trading will become increasingly important in line with the securitisation of capital markets. As for new business projects, we will move further into the middle market. We are also actively taking an interest in new products such as futures and swaps and other fee-based business as fund management.

Mitsui Bank

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WORLD ECONOMY 6

The global picture is of rising interest rates, which would normally be associated with an increase in economic growth

US economy a key problem

INTEREST RATES have sent out worrying signals for the world economy this year. Dollar rates have come under sharp upward pressure associated with the huge and unyielding US balance of payments deficit and the associated slide in the currency. But rates in other leading currencies have also tended to edge higher in recent months.

Whereas, in the early part of the year, Japanese interest rates were falling sharply - with the 10-year government bond rate down to 2.77 per cent at one stage in February - they have since bounced back to nearer 6 per cent. In the process, they have put severe pressure on the practitioners of so-called "zaitech", or corporate financial engineering, leading for instance to the heavy losses suffered by Tateho Chemical.

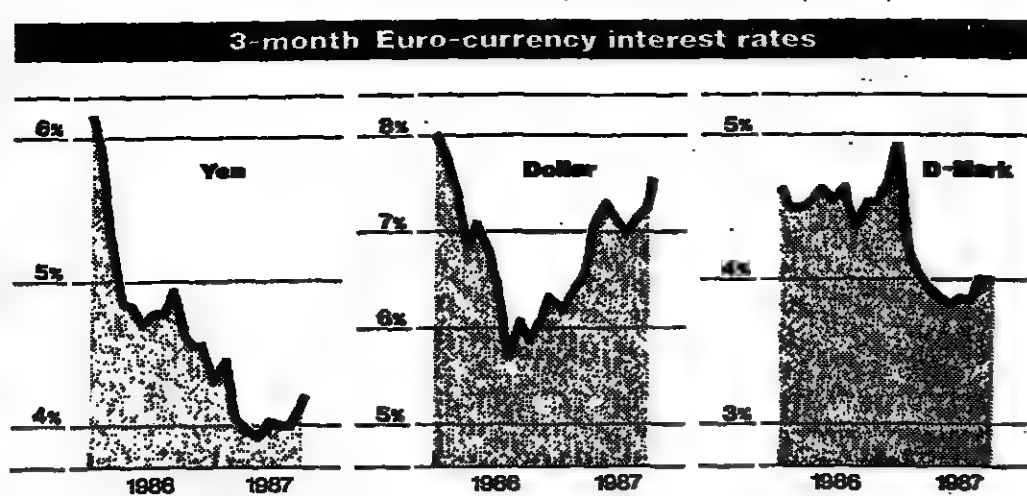
Sterling rates have also been moving upwards since midsummer, highlighted by the half-point jump in bank base rates in early August which triggered a severe shakeout in the gilt-edged market.

Germany presents a more stable picture, and the strength of the currency has helped short rates to remain low. But there are signs of some easing of fiscal policy in response to the poor economic growth rate - which may be only 1.5 per cent for 1987 - and bond rates have risen since the springtime low.

What does the global picture of generally rising rates imply? Normally, higher interest rates would be associated with an increase in economic growth rates. But in aggregate, the leading industrial economies could well show lower economic growth in 1987 than for several years past, with upturns in Japan and the UK being offset by weakness in the US, Germany and elsewhere.

One possibility is that economic growth is running more strongly than the forecasters expect. There has been some support for this hypothesis from the recent surge in commodity prices. But this may have had its speculative elements, associated for instance with tension in the Gulf, which certainly caused surges in the oil price.

Another fear is of resurgent inflation. In several countries there has been some pickup in



the rate of increase of consumer indices, though 1986 - a year when oil prices actually fell - was arguably deceptive as a base. If prices are rising rapidly, investors will seek to obtain higher yields to protect themselves.

A number of countries - the UK is perhaps the most notable example, but Japan is also affected - are struggling with above-target monetary growth, which could imply higher inflation in due course. Active debates are going on in such countries about whether high monetary growth poses a threat which needs to be countered by higher interest rates, or whether structural factors - including the growth of corporate treasury activity - are responsible, in which case the implications for inflation may be benign.

Elsewhere, hints that Germany may adopt a less rigid anti-inflationary line in favour of boosting growth could have implications for the policies of the whole EMS block, possibly after another minor currency realignment.

At any rate, gold has enjoyed a speculative surge this year, though as usual it looks better in terms of dollars than most other currencies, and the whole inflationary scare may be somewhat overdone.

The central problem remains the US economy, and to some extent the Japanese economy which is in many respects its mirror image. The July trade

figures, showing a record \$18.5bn deficit, indicated no improvement in the economic balance. The US authorities appear to be reconciled to a further decline in the dollar on the foreign exchanges. Nevertheless, the incoming chairman of the Federal Reserve, Mr Alan Greenspan, opened his account with a half-point rise in short interest rates, suggesting that he is not prepared to let the economic and monetary slide continue entirely unresisted.

The US bond market is now characterised by almost unrelieved gloom. Long rates have been heading fast towards double digits. After a number of very good years in the early 1980s, dollar bond investors have experienced serious capital losses, with a negative return of some 15 per cent so far this year on a 30-year Treasury bond, even allowing for interest received.

A number of the leading US investment banks have suffered serious losses from successive shakeouts in the bond markets, both in the second and third quarters. The main problems have arisen not so much from falling bond prices in themselves as from the failure of hedging techniques to work properly, a consequence of structural changes in the markets due to severe conditions.

There are said to be \$4,000bn worth of domestic dollar bonds in issue, a vast pool, and one which inevitably exerts strong

influences over the markets throughout the world. It has, for instance, provided an outlet for the huge Japanese savings surpluses, and has therefore helped to sustain Japanese bond yields.

The US is sucking in vast amounts of capital; in the second quarter of the year the balance of payments deficit hit a record \$41bn. This is tending to drive up rates world-wide, despite the general sluggishness of the global economy.

Meanwhile, the Third World debt crisis continues to deepen, with banks around the world this year engaging in a round of provisions and write-offs as they seek to come to terms with something approaching reality.

Part of that process is a widespread recapitalisation of banking balance sheets, including leading American and British banks, while the Japanese banks have also been boosting their ratios. Although much of the new capital has been in the form of equity, the calls must have had an effect on long-term interest rates.

Yet in these troubled times there are still havens of peace. Swiss bond yields have eased to historically low levels this year. Even in Switzerland, however, a modest upturn in inflation (to nearly 2 per cent in the year to July) and a sluggish economy are reminders, in a small way, of the pressures being experienced in markets around the world.

Barry Ewley



Would giving these jobs really mean higher prices?

Hugh Routledge

Unemployment

Inflation fears cause inertia

THE INEVITABLE optimistic gloss which will be put by governments of industrial nations on the economic outlook at this week's meeting of the International Monetary Fund will fall on the deaf ears of 31m people.

The number of people unemployed in the 24 industrial nations represented by the Organisation of Economic Cooperation and Development has been stuck at that level for the past 3 years. The prospects and policies now in view offer little hope that it will be any different in 1988.

Perhaps more alarmingly, there is a growing, if unacknowledged, consensus among governments that very little can be done to significantly reduce the number - representing over 3 per cent of the workforce - without re-igniting inflationary pressures.

That inertia is being reinforced by a more general downward revision of expectations, a trend underlined by a recent IMF report which suggested that industrial countries can expect a long-run economic growth rate of barely 2 per cent a year.

In countries like Britain, where unemployment at around 11 per cent is well above the average, there are already suggestions that the present relatively rapid growth of the economy cannot be sustained without a renewed wage-price spiral.

In West Germany, where unemployment appears to have resumed an upward trend in response to still-singling growth, the accepted official wisdom is that the best the Government can do is to wait until the working population begins to decline in the 1990s.

Of course, the dismal aggregate picture masks some more optimistic signs. Employment growth in the OECD area has averaged between 1 and 1.5 per cent since 1984, enough at least to keep up with the rise in the labour force.

The US is continuing to show that, despite its massive trade deficit, its economy is resilient enough to bring a steady fall the number of people out of work. Countries like Sweden continue to demonstrate quietly that it is possible to have an unemploy-

ment rate of 3 per cent with any real inflation problems.

The fact, however, that a US unemployment rate of 6 per cent or so is regarded with envy in most of the rest of the industrialised world shows just how far the pendulum has swung. Even 10 years ago such a figure would have been regarded as politically and economically unthinkable in virtually every industrialised country.

The problems presented by mass unemployment are not confined to the level. With the huge increase in the number of jobless during the 1980s have come the associated ills of rising youth and long-term unemployment.

That in turn has contributed to a fragmenting of the labour market in many industrial countries, creating a core of relatively prosperous insiders with jobs and an increasingly distant group of unemployed outsiders. These outsiders increasingly lack the skills or motivation necessary to regain entry into the labour market, while their moderating impact on the wage settlements of those in work has steadily diminished.

One implication drawn by governments of this so-called "stagnation" is that there has been a substantial rise in what economists call the Nairu - the unemployment rate consistent with a steady inflation rate.

In parallel there is evidence that the capital stock in many countries, particularly in Europe, is no longer able to accommodate anything like full employment. Depressed demand and high real interest rates have meant that a disproportionate amount of investment in Europe has been devoted to capital deepening rather than capital widening.

The lack of physical capacity is particularly acute in Europe, where, according to some official estimates, the ratio of investment to output would have to double in order to raise the level of employment by 5 per cent.

The concept of a rising Nairu remains controversial. Some economists regard it as little more than a post-hoc justification of the present high rates of unemployment.

Continued on page 7

Which international investment bank serves you best in yen finance?

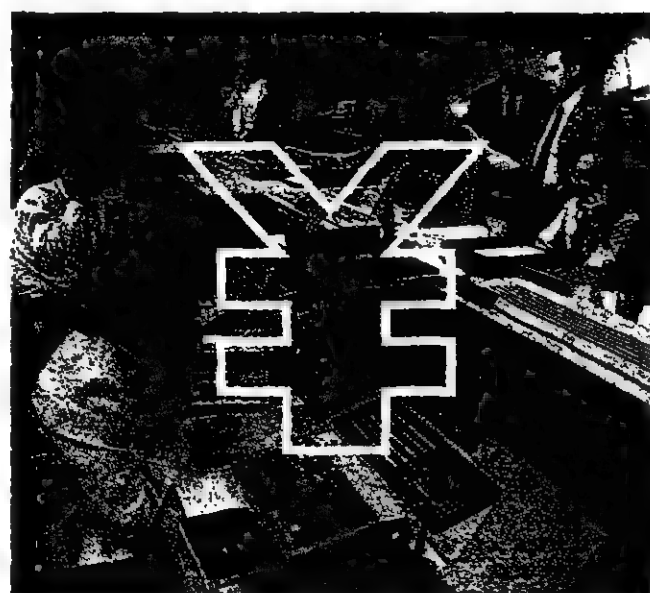
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September 1987

WORLD ECONOMY 7

Inertia on jobs

Continued from page 6

unemployment - if governments acted vigorously to reduce the jobless total, the Nairu would fall.

A much more fundamental division, however, focuses on the extent to which the backlog of unemployment built up in the early 1980s can be reduced through measures to strengthen demand in European economies.

The consensus among present governments is that, if inflation is to be kept under control, action to reduce the jobless total should be confined to microeconomic, or supply-side, measures.

These range from the liberalisation of capital flows, to measures to reduce the power of trades unions, to the privatisation of state assets. Alongside such reforms, governments have established varying types of training and make-work schemes to take the political sting out of high unemployment.

There is little doubt that the supply-side measures can help to generate a more entrepreneurial spirit in Europe, and remove some of the more obvious impediments to business start-ups and expansion. Tax reform can also take some of the bias out of the tax systems which have encouraged capital deepening rather than employment.

It is whether such measures in themselves are enough which is open to serious question.

As the European Commission highlighted in its 1987 annual report, Europe is in danger of being permanently locked in to a low growth path. Annual growth rates of 2 or 2.5 per cent will at best allow it to absorb new entrants to the labour market.

Without the prospect of stronger demand, businessmen are unwilling to widen the capital base; without such an expansion industry will be unable to take on workers at anything like the rate needed to reduce unemployment to historical levels.

The answer put forward by the Commission, to complement supply-side measures, sought to improve the flexibility of labour markets with macroeconomic policies aimed at both ensuring adequate demand and at raising productive capacity. Such an approach, of course, would not bring instant results. It would, however, offer at least some hope of the present vicious circle being replaced by a virtuous one. **Philip Stephens**

Gerhard Stoltenberg, Finance Minister of the Federal German Republic, on pressures facing his country

Expansion must vary with potential

The basic annual growth trend in the Federal Republic is between 2 and 3 per cent. And no one would benefit if, by means of expansionary budgetary and monetary policies, involving the sacrifice of price stability, we were to achieve somewhat higher growth rates.

AS ONE of the most important exporting nations, West Germany is dependent on international markets to an extent matched by few other countries. At the same time, we are an important customer for many foreign producers. As a result, the world economy has always played a decisive role in influencing our policy-making.

Present international problems arise above all from the instability of major commodity prices and exchange rates, from the effects of ill-considered debt policies - both national and international - and from neglect of elementary competition rules. These problems persist in spite of positive developments on growth and inflation.

Responsible politicians must stand up for efforts to improve the functioning of the world trade and monetary system, for active economic co-operation and for attempts to boost growth in poorer countries.

Unfortunately, in public discussion over policies in individual countries, insufficient attention is often paid to these overall policy-making tasks. It has become fashionable to make judgments upon countries' economic policies on the basis of their so-called contributions to growth. This seems to result from the view that development of the world economy depends on the success of economic stimulus measures by governments, to be carried out above all by the main industrialised countries.

Of course, we all want stronger growth. The goal of higher prosperity is the bedrock of the world economy. But the pace of desired expansion varies from country to country, according to its stage of development, population growth and political goals.

It is natural that younger industrial nations, or those with rapidly rising populations, have a higher growth potential than countries which have already reached a high level of prosperity or whose population is declining.

The basic annual growth trend in the Federal Republic is between 2 and 3 per cent. No one would benefit if, by means of expansionary budgetary and monetary policies, involving the sacrifice of price stability, we were to achieve somewhat higher growth rates.

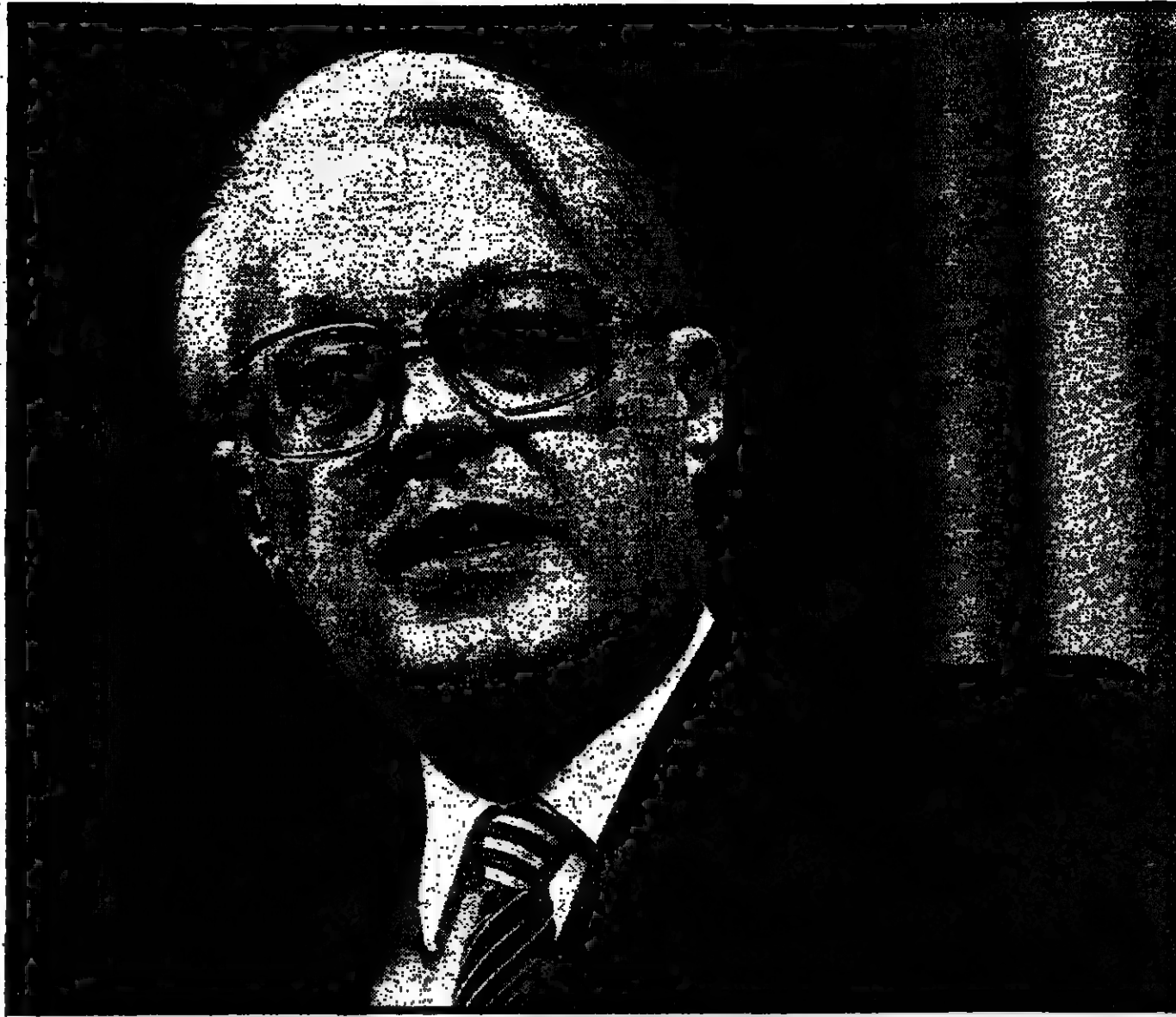
Our partners in Europe and on the other side of the Atlantic and the Pacific can be certain, however, that West Germany is doing everything possible to create the right conditions for investment, better marketing opportunities and more jobs in a competitive climate.

The consolidation of public finances in the last few years has not limited growth. On the contrary, it has created additional freedom of manoeuvre for the private sector.

We want to provide a reliable base for improving our economy over the longer term. This requires a carefully adapted budgetary and monetary policy to secure a high degree of price stability, and a gradual reduction of the state's share (presently 45.5 per cent) in total output.

Necessary steps are: further public spending restraint, a better environment for private investment, further privatisation measures, and the strengthening of self-reliance in the social security system.

Additional budgetary breathing space created during the



Mr Gerhard Stoltenberg: younger industrial nations have higher growth potential

last few years can now be used for significant, permanent tax cuts. Between 1986 and 1990, the tax burden on West German corporations and individuals is to be lowered by nearly DM50bn, representing around 2.5 per cent of gross domestic product.

This initiative places the Federal Republic at the top of the world tax-cutting league table. It is now generally agreed that greater budgetary manoeuvring room and enhanced individual incentives provide the key to maintaining the strength and

adaptability of our economies in coming years.

West Germany is fulfilling its part of the February Louvre agreement by bringing forward part of its tax cut plans, with the 1988 instalment increased by DM5bn to DM14bn.

As a result of better co-ordination of economic, budgetary and monetary policies, the aim is to stabilise price and currency relationships, and so improve chances for smooth expansion of international trade. West Germany played a significant

part in bringing about the Louvre agreement, and, through low interest rates and considerable foreign exchange intervention, has contributed to its success up to now. Japan, the country with the largest foreign trade surplus, has also decided on concrete measures to stimulate domestic demand.

In the US, the budget deficit, which has been one of the causes of the large trade deficits of the past few years, is expected this year to fall by around \$60bn.

This policy co-ordination and the considerable currency adjustments of the past two years will not fail to have the desired effect. Already, the impact on real trade balances has been far greater than on nominal values, which have been influenced by the drastic changes in exchange rates.

In constant foreign trade prices, the West German trade surplus last year fell by nearly DM20bn, or 1 per cent of gross national product. The volume of imports in the first half of 1987

rose by 11 per cent, compared with the first half of 1986. The Federal Republic has, as a result, supported growth in other countries.

The decisive point is that we must not disrupt this adjustment process through protectionist measures. Trade policy submissions discussed in the US Congress are clearly pointing in the wrong direction.

It has to be recognised that, in Japan, in the newly industrialising states of South-east Asia, and in the EC, further opening of national markets and strengthened deregulation will contribute to a spurring of free trade.

I believe that improved economic co-operation within the EC and among the big industrialised countries has proved itself. But this should not be misunderstood as a system where governments take short-term economic measures in response to limited fluctuations of the economy. We do not want a return to the stop-and-go policies of the 1970s.

International growth, through price stability and free trade, is necessary to solve the problems of international indebtedness. Developing countries can earn the necessary foreign exchange to build up their economies and meet debt service requirements only in an expanding world economy with more open markets.

In line with its important share in the provision of international capital, West Germany will play an important role in solving the debt problem. We have always argued for a further strengthening of the resources of the World Bank, the regional development banks and, in appropriate circumstances, the IMF. It is unfortunate that the urgency of these tasks is not recognised to the same degree in all industrialised nations.

In important aspects, international economic co-operation has advanced further than has sometimes been apparent to the public. Increased consultations create understanding for problems of other countries and strengthen readiness to consider the interests of partners. In an economic system of increased world-wide interdependence, the Federal Republic is well aware of its heavy responsibilities.

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WORLD ECONOMY 8

Trade

Protectionism lives

IT IS now almost exactly a year since the Uruguay Round of multilateral trade liberalisation talks was launched amid a euphoric fanfare at a meeting of trade ministers in Punta del Este. In the intervening months, euphoria has given way to a harsher day-to-day reality. Doubt and uncertainty over the outcome of the four-year round is once again as strong as ever.

That this should be the case in one respect is unsurprising. Multilateral trade liberalisation talks have never been easy affairs. A year is a very short time in the negotiating cycle, which so far has concentrated on identifying the problems rather than any serious bargaining, and no one ever expected concrete progress to be made in such a short time.

What has been a clear disappointment to the promoters of the round, however, is that the climate in which it is taking place has hardly improved at all. Growth of world trade in manufactured goods remains sluggish - the General Agreement on Tariffs and Trade is forecasting an increase of only 2.5 per cent this year, compared with 3.5 per cent in 1986. The steep decline in the dollar has made only a small dent in the massive trade deficit of the US. Japan's surplus remains embarrassingly large, and efforts by other trading nations to prise open its markets to imported goods have met with few practical results.

Far from declining under the impetus of the new round, all the signs are that protectionism has been on the increase as a result of these factors. A key part of the Punta del Este declaration was a promise by participating countries - known in the jargon as "standstill and rollback" - to reduce the level of protection afforded to their respective economies. Yet a study produced by Gatt this summer showed that the number of grey area (ie protectionist) measures adopted by its members rose to 116 in the six months to March, from 93 in the preceding six months.

At the same time disputes abound between the major trading powers.

Though a trade war between the EC and the US over pasta exports was averted at the last minute in early August, other quarrels are looming as the US frets about EC plans to ban the use of hormones in meat and continues to charge its governments with unfairly subsidising the European Airbus.

Meanwhile, the US actually imposed sanctions against Japan this spring as a result of its failure to observe conditions of the bilateral agreement between the two countries on semiconductor trade, an agreement deemed by many experts

to violate Gatt rules. Japan, for its part, is threatening action in the Gatt to protest against a recent European decision to start including imported components in its dumping inquiries over Japanese photocopyers and typewriters.

Trade economists say there are two dangers inherent in such a proliferation of disputes. The first is that at some point one will spill over into a process of retaliation and counter-retaliation that will tip the world into a major trade war. In practice, such a development is unlikely, because all the world's major trading nations are fully aware of the risks at stake and in the past have usually stepped back from the brink. Yet there remains the risk of an accident.

The second, which is more pernicious, is that the actions of the leading trading powers may undermine the moral climate in which the Gatt round is taking place. There is little point, for example, in the developing countries, which are supposed to play a more important role in this round than ever before, taking a positive stance over the Gatt Round when the major trading powers in practice display contempt for the rules of free trade as set out in the Gatt.

The main influence on the mood of the negotiations as they move into their second year is likely to be the trade legislation now being prepared by the US Congress. Draft bills produced by the two houses of Congress are now being reconciled, but some of the proposals they contain have aroused emotions ranging from alarm to downright hostility elsewhere in the world.

Earlier this summer, Mr Willy de Clercq, EC External Relations Commissioner, said the new trade legislation constituted a "unilateral and unacceptable" attempt to rewrite the rules of world trade. Senior Reagan Administration officials, such as Mr Clayton Kopp, US Trade Representative, have warned Congress that some of the proposals, including enhanced protection for the textile industry and measures to require countries with persistent trade imbalances to reduce their exports to the US, will invite damaging retaliation from trading partners.

At this stage it is too early to say how many of the most contentious measures will remain in the final version of the bill, or indeed whether President Reagan will be able to muster sufficient support in Congress to veto such a bill if he so chooses. The general assumption is, however, that the US will move on to a more protectionist track as a result of the Congressional debate.

A bill which is successfully vetoed by the President would hardly constitute a victory for the free traders, since it would mean that the whole debate would be re-opened next year when the Reagan Administration is drawing very close to its end. Moreover, a veto would tend to slow down the Uruguay Round since it would deprive the US Administration of the fast-track negotiating authority which it needs for the Geneva-based talks.

Even if a bill were passed which dropped all or most of the most obvious contentious points, the likelihood is that it would still lead to increasing friction between the US and its trading partners. This is because one of the most fundamental points at issue in the Congressional attempt to limit the discretion of the President in managing trade policy. His power of negotiation would be diminished, action under trade law would become more automatic, and disputes would increase.

One of the most important yardsticks by which the trade legislation will be judged will therefore be whether the Administration has had to forgo its powers of discretion in order to avert the most conspicuously protectionist elements of the legislation. If there is to be a trade-off, it seems inevitable that the Administration's power of discretion will inevitably be diluted.

This is hardly a climate conducive to a productive outcome of the Uruguay Round. Ironically, most of the officials and politicians most intimately involved in these discussions accept the intellectual argument in favour of freer trade. Reconciling this to what is politically feasible is another problem altogether, as the acrimonious exchanges between the US and Europe over agriculture this summer have already shown.

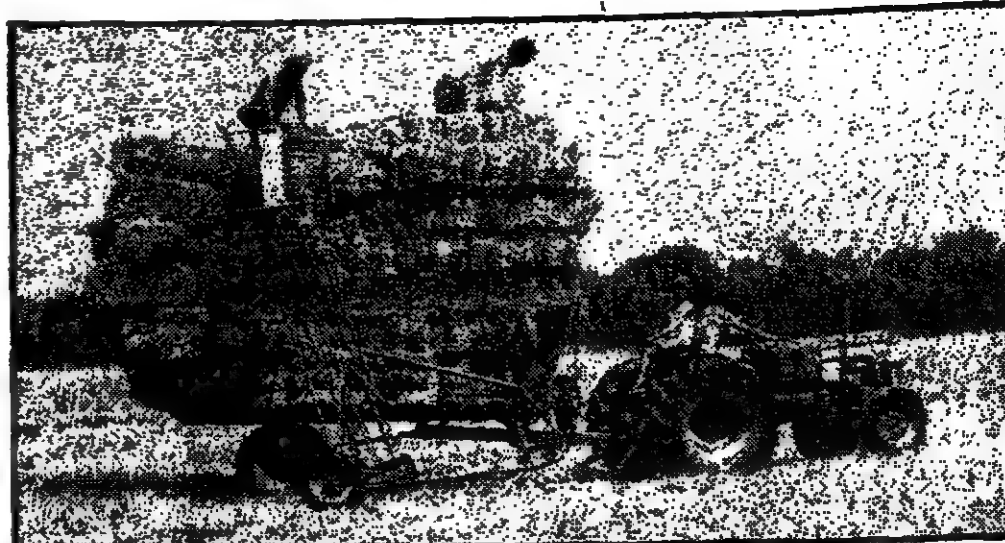
There is too much at stake in the Uruguay Round for it to be allowed to founder altogether, but partly because of the direction taken by the trade debate in the US, many observers believe that the political will to make it a meaningful success is also lacking.

As a result, the fear remains that, even though the round is now under way, international trade politics may increasingly turn away from multilateralism to a new approach based on bilateral and sectoral agreements between major trading powers, which would impede the free flow of trade around the world and ultimately stunt the prospects for general economic recovery.

Peter Montagnon

Agriculture

Stockpiles increase



Even in rich countries things are less scarce than they may appear

AGRICULTURE IS in crisis virtually all over the world. In the rich countries of the developed world, production has increased steadily over the last decade under the twin stimuli of technological innovation, which has increased yields, and the generally high levels of support that governments have given to farmers.

At the same time, traditional markets have remained stable, or have declined, while new markets have been found only at the cost of heavy export subsidies. Stockpiles have grown rapidly while, overall, the cost of agricultural support has spiralled, creating increasingly untenable pressures on budgets.

Paradoxically, however, the majority of farmers in the rich states have benefited little from this rising expenditure, since some 75 per cent of all agricultural aid has gone to fewer than 25 per cent of the area's farmers, who are in fact the larger producers.

These problems have spilled over to the rest of the world, distorting international trade, lowering prices of many commodities produced by developing countries, and leading to growing tensions in international relations as countries compete for markets in increasingly bitter trade wars.

Evidence of the mounting crisis has been accumulating for several years. What is new, or relatively new, is that, under pressure from their treasuries, the industrialised countries are beginning to recognise the need for action to reduce the need for agricultural support.

The crisis is currently most acute in the cereals and dairy sectors, although beef, sugar, rice and a number of other commodities present similar problems. Wheat production in many of the major OECD countries, for example, though now growing at somewhat less than the yearly 2.1 per cent rate prevalent in the 1970s, still increased by between 15 per cent (Australia) and 42 per cent (European Community) in the five years from 1980-81.

Though the overall rise in production has been modest, wheat stocks in land being taken out of cereal production in the US recently, 43 per cent of all wheat produced within the OECD was stockpiled in 1986-7, against 32 per cent five years earlier. Global stocks in the US and EC are now nearly 50 per cent higher than they were five years ago.

At the same time, world cereal consumption has slowed down. Within the OECD, which accounts for 30 per cent of world consumption, the increase is now some 0.5 per cent a year. International trade in cereals is stagnant after fast growth in the 1970s, partly because former importing countries, like India and China, are now joining the list of would-be exporters, but also because of slowed world economic growth rates and balance of payments pressures in developing countries, which has reduced imports.

In the dairy sector, one of the most heavily subsidised within the OECD, stocks of butter and skimmed milk powder (the most easily stored of surplus dairy products) rose to record levels in the mid-1980s, with the EC alone stockpiling 1.1m tons of butter in 1985-6, compared with some 345,000 tonnes in 1981.

As for the cost of agricultural support systems, a recent analysis by the OECD (National Policies and Agricultural Trade, OECD Paris 1987) suggests that total subsidies, including price support, income support and direct subsidies, amount to

about two-thirds of the total value of all dairy produce, and between 20 and 35 per cent of most other commodities.

Estimating costs another way, the report suggests that the US and the EC each spent just under Ecu7,500 in support for each agricultural worker in 1979-80, or Ecu11,000-12,000 per agricultural holding. That sum is certainly greater today, for the OECD estimates that total spending on agriculture in the US rose from about \$26bn in 1980 to some \$57bn in 1985, while the EC support costs doubled from \$10.8bn to \$21.5bn in the same period. The latter figure did not include the very substantial sums spent on national farm support by member states.

But if the problems facing agriculture world wide are now much better recognised, there is so far no unanimity as to what should be done about them.

In the last two or three years, both the US and the EC have introduced measures primarily to control production. In the US, for example, schemes to fallow land that formerly grew cereals have stabilised output. Much the same effect has been achieved in the EC with the imposition of

quotas on milk production which were abruptly introduced in 1984 and have subsequently been continued. Cereals prices have also been cut by the EC, although there is a widespread belief that more drastic action, including setting aside land as in the US, will be necessary if production is to be effectively curbed.

There is a growing recognition, however, that for solutions to be effective they must be multinational and applicable to a wide range of commodities, since there are substantial linkages between sectors (what happens to the price of feed grains obviously has an effect on the beef industry, for example).

Last September, the 93-member Gatt organisation finally agreed that agriculture should form a major part of the new Uruguay round of trade negotiations which will reopen in Geneva this autumn. A battle royal is promised as the round develops, since it is already clear that there are substantial differences of approach even between OECD member states.

Last July, in a move which many observers believe was designed more to shock the EC

and Japan into action rather than to provide a practical starting point for negotiations, the US proposed the worldwide elimination of all forms of farm support by the end of the century.

The US plan, whose three main planks involve the removal of all subsidies, the elimination of all import barriers over the same period and the harmonisation of health regulations, was immediately labelled as too ambitious and impracticable by EC officials.

The European Commission, which is to table its own proposals by the end of the year, is certain to take a more modest line, possibly more akin to that of the recent OECD report which envisages a 10 per cent reduction in subsidies over a five-year period, with further similar reductions thereafter.

Many experts believe, however, that real reform will be impossible within the unwieldy and slow-moving Gatt unless the major subsidising countries can first reach political agreement between themselves. The possibility of an agricultural summit involving the US, the EC and Japan has been mooted by, among others, a number of US senators. They have proposed an agreement on the withdrawal of subsidies on six of the most heavily subsidised commodities - wheat, butter, beef, rice, sugar and cotton - over the next five years.

According to the OECD, whose report was the result of a five-year analysis, the reform of agricultural policies "is every day becoming more urgent and critical". The report insists that the aim must be to "reduce market distortions arising from support programmes, to make the agricultural sector more flexible and more responsive to world market signals, to reduce costs, to reduce the disparity of benefits between producers as well as to improve international relations in agriculture."

It believes that reforms must change the nature of agricultural support so that it is no longer output-related. This will, it believes, inevitably change the structure of agriculture in the rich states, involving a substantial decline of the resources deployed in the sector. A number of OECD states are tentatively thinking along the same lines. In Britain, for example, there are nascent schemes to make agriculture less favoured areas much less intensive.

Bridget Bloom

Oil

Production up and prices stable

AT THE beginning of this year, most of the major oil companies were expecting that crude prices would be highly unstable, with a collapse to \$15 per barrel widely expected within a few months.

By the end of August it was clear that their analysis was sound but their predictions were wrong. Production by the Organisation of Petroleum Exporting Countries had climbed to some 25.5m barrels a day, or nearly 40 per cent above the organisation's agreed ceiling of 16.6m barrels a day.

Stocks were reported to be rising faster than could be explained by the usual seasonal build-up in the northern winter, and all the evidence suggested that large quantities of oil were still steaming from the Middle East towards markets in the west, despite the depredations of the Gulf war.

Indeed, as the Paris-based International Energy Agency has pointed out, Opec production at the end of the summer was at the same level as in the summer of 1986, just after spot oil prices had plunged to the giddy depths of \$8 per barrel, and some Gulf crudes were fetching only \$6 before shipment.

In short, the extensive "cheating" by Opec members which was the root cause of the collapse in prices last year, and which was widely expected after Opec's protracted meeting in Geneva before Christmas, has happened. Kuwait, the United Arab Emirates and Iran have all been substantially above their quotas, and all the signs are that Iraq, which stood outside the agreement, will continue to expand output through its pipeline to Turkey.

Yet the oil price remains remarkably close to the target of \$18 agreed for it by Opec members in the crowded corridors and suites of Geneva's Intercontinental Hotel nine months ago. It is true that spot market prices have been jumpy, and indeed slumped significantly when it became clear this summer that Opec's chronic tendency to over-produce was getting worse, not better.

But the movements, though exciting enough to futures market players and Wall Street refineries, have not perturbed the industry, and have scarcely been noticed by the wider world. Indeed, for consumers outside the US, movements of the dollar and the question of its further fall have been much more significant than the spot market price in dollar terms.

For some reason, which remains a puzzle to many acute observers, a general air of confidence in stability seemed to emerge in the spring at about the time that the widely expected weakening in crude prices did not happen. This was shown, not just by the relative strength of oil company share prices, but by the behaviour of oil companies themselves.

British Petroleum's decision to spend more than \$700m buying the minority of Standard Oil of the US that it did not already own was perhaps the most obvious sign.

No doubt the main factor was the selling of Saudi Arabia's Zai Yamani to Saudi Arabia's oil minister in October 1986, and his replacement by the solid and forceful Mr Hisham Nazer. Although Yamani's departure was greeted at first with some shock and apprehension, it was soon seen as the definitive end of the Kingdom's policy of regaining market share by discounted prices and "backdoor deals".

Certainly, Mr Nazer made it clear that this did not mean that Saudi Arabia would revert to the role of swing producer, if that meant a substantial reduction in production from its agreed quota, as had happened in the summer of 1985, when its output fell to little more than 2m barrels a day or less than half its present rate. If Mr Nazer was bluffing, his bluff has not had to be called. Instead, he has so far shown himself to be quite successful in putting pressure on erring members.

In this he has no doubt been helped by the rather strange consensus that has developed between Saudi Arabia and Iran despite the increasing rancour of their general political relations. This is symbolic of a wider sense among all Opec members that, having stared over the barrel of financial ruin in July, they must be careful how close to the edge they push each other next time.

The growing tensions the Gulf make it especially hard to predict the politics of Opec. However, an uneasy pattern seems to have been established for more than a year, in which members have allowed themselves a certain tether for cheating, in the knowledge that they will be brought up short as soon as the spot market starts to show serious weakening. Another Opec meeting is announced, which keeps the market uncertain. A patched up agreement, which nobody quite believes, revives the price a little and so the cycle continues.

But there may also be more fundamental influences at work. The demand for oil is once more beginning to revive after its lengthy decline. The modest rise of about 1 per cent expected this year would add a little under 500,000 barrels a day to world demand, while North American production now seems set on declining trend. These movements will not do much to mop up the surplus in Opec which could probably produce 10m barrels a day with little extra investment. However, as Norway recognised last July, decided to limit the increase in its production, even a small amount could help to tip the balance in the cartel's present

uneasy state of equilibrium. Another, mildly stabilising factor is the wide consensus in the oil industry that about \$18 per barrel is the "right" price for oil, even though a fully competitive market would drive the price down to the marginal cost of production, which is still as little as \$5 per barrel for a time.

However, in a market not glutted by oversupply, prices might be somewhere around the present long-run marginal cost. As a result of strenuous cost cutting, this has been brought down to the \$17-to-\$22 per barrel range for some North Sea projects now under consideration. Though western oil producers would prefer a higher price, \$18 is widely seen as a "fair" compromise between the interests of the consumer and the need for producers to generate cash flow for future investment.

It is also a price which may

not greatly slow the pace of conservation, though it may not encourage it. This consensus has been reinforced somewhat outside the US by the effect of the dollar's decline, which has taken some pressure off those oil refiners selling products in other currencies, even though margins are generally low.

Whether this consensus actually affects the price of oil is more difficult to say. Oil companies all deny that their interest in "stability" takes any active form. However, it seems likely that, in their dealings with Opec, the major oil companies may in subtle ways have tried to re-inforce the present accord without going so far as to sacrifice their own competitive advantage.

Even though prices may again fall steeply, as seems entirely possible, a consensus is growing that the risk of a sustained large

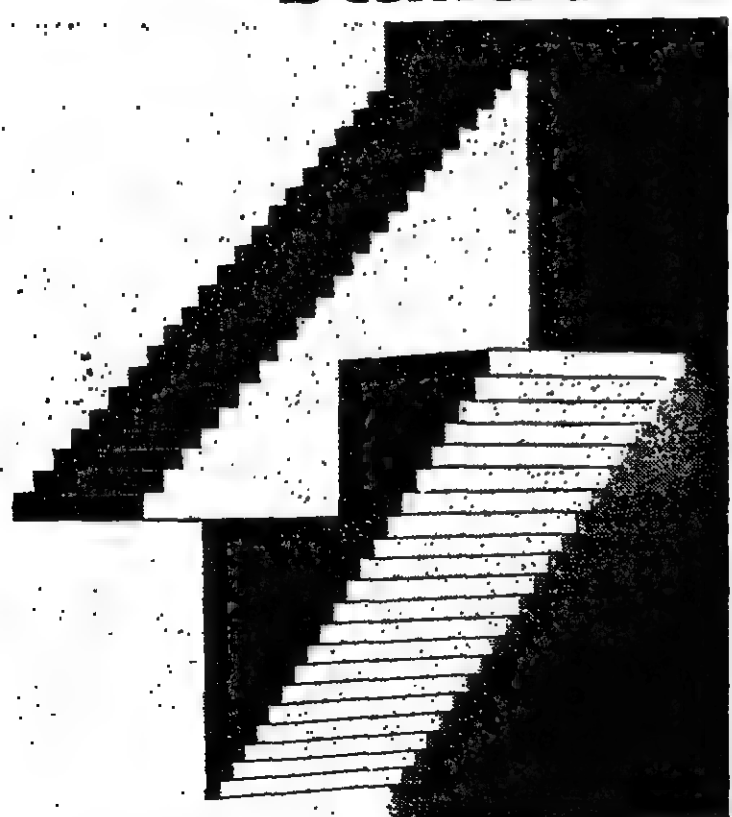
rise in prices is much less than was believed only a few years ago. Lower production costs and new techniques may lengthen the life of non-Opec supplies, although they will not prevent a decline unless some major new fields are found.

However, the cost of converting coal into synthetic oil and of making petrol out of natural gas seems likely to decline, so that non-conventional supplies of petroleum products could start coming on to the market at less than the equivalent of \$30 per barrel in the 1990s, putting, if not a cap, at least a restraining influence on the oil price.

And yet, as the events of 1973-4, 1979 and 1986 all showed, major changes in the oil price, even when they are predictable, take the world by surprise.

Max Wilkinson

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WORLD ECONOMY 9

Anthony Harris on trends in world securities

Now we are getting used to vertigo

As the peak market multiples of the 1960s are approached or surpassed, we are clearly very near the point where a bull market overshoots into financial mania, and may already have passed it - even with hindsight, the moment is hard to define.

IT IS now well over a year since the international investment community began to distrust the Tokyo market. Many fund managers have lost potential profits as a result, but they have had their compensations. Striking gains have also been available in most other markets, until these too have reached levels which arouse the same feeling of vertigo as Tokyo has for so long.

Three years ago the currency markets showed the danger of following trends regardless of the fundamentals. The dollar rose to levels which were obviously unsustainable in economic terms; but the rise went on for so long that many financial managers concluded that the

underlying rules had been changed in some unexplained way. They had not. The result is that Japanese investment managers have collectively lost some \$40bn on their dollar bond holdings, while the correction of the dollar exchange rate which started in February 1985 is still incomplete after nearly two and a half years.

If a widely traded currency can reach nearly twice its equilibrium value as a result of market volatility, security prices can easily diverge much further. Currency misalignment provokes quite strong economic forces making for a correction: profits in the over-valued country are squeezed, and trade

slides into deficit. The overvaluation of securities, on the other hand, tends to appear self-justifying over quite a long period, since its initial impact tends to boost both economic activity and profits.

The effect on activity is difficult to measure, since the so-called wealth effect on spending and saving is a relative newcomer to economic models, and its strength is much debated.

In the UK, for example, consumer spending has been growing closely in line with money incomes, while industrial investment has lagged behind economic growth. However, the wealth effect is still detectable; economists would normally expect the growth of spending to lag behind income gains, while the investment surge which results from strong goods markets and cheap capital is always a latecomer in the economic cycle.

The effect on profits is much clearer. Staff pension funds have achieved such high investment profits that there has been a partial funding holiday for the employers, boosting reported profits. Corporate treasurers have been able to turn their strong credit ratings to profit in the money markets, and in some countries - notably in Japan - companies have been active large-scale speculators in the derivatives markets. The dangers inherent in this geared-up speculation became clear with the failure of a small chemical company recently, but the Tokyo market took this memento mori

remarkably calmly.

Continuing reported profit gains have helped to reassure those who are nervous about high market index levels; but all the effects which produced them will reverse if the market itself reverses. Pension funds will need topping up again, and companies that have been speculating may have to report heavy losses. This is a system built for volatility, and inherently unstable systems will occasionally, like the ocean swell, produce freak waves.

As the peak market multiples of the 1960s are approached or surpassed, we are clearly very near the point where a bull market overshoots into financial mania, and may already have passed it - even with hindsight, the moment is hard to define. The pattern, on the other hand, is very clear: in a financial mania all the normal bull market multiples (the 1960s peaks which are now being scaled again) are left far behind. Prices rise to dizzy heights, and then crash. It is a period of maximum profit opportunity, and maximum risk.

Such episodes have punctuated financial history every half century or so, as have the rather rarer financial panics (though many active traders vividly remember the London panic of 1974, when prices fell faster and further than in 1929). Students of the market have offered explanations ranging from crowd psychology to the length of the working lifetime of a senior trader, or sought them in monetary theory or in the long technological cycle.

These are all plausible lines to research; but the theory which seems to fit best at the moment relates financial mania to the rise and fall of financial hegemonies. At intervals through history a country which has been the main source of international capital grows economically decadent

At intervals in history, a country which has been the main source of international capital grows economically decadent

nomically decadent (there is no room here to trace the chain of cause and effect), and a new centre emerges.

This financial baton-passing seems to be marked with financial mania; the Dutch tulip mania, the South Sea bubble, and the Wall Street boom and crash are all examples. The cause may be the inexperience of the new investors, the fact that world savings tend to rise at such periods, or perhaps (in modern times) the fact when world reserves are held in a weak currency, there is a large transfer of wealth from official reserve-holders to private investors.

Whatever the mechanism, there is clearly a risk that the emergence of Japan as the main source of new international capital will be associated with

another mania. This risk is clearly greater because of what happened in the 1970s, when the authorities deliberately left it to the private markets to recycle the Opec surpluses through the Euromarkets, and effectively lost control of the system as a whole.

Deregulation in these circumstances is a policy which would have appealed to King Canute; he wanted to prove to his courtiers that he could not control the tide. It is no help at all, however, to central banks charged with keeping the financial structure in good repair. As the markets become more comprehensively international, the power of individual central banks is steadily eroded.

However, the authorities can still influence the system. The persistence of high real interest rates, in strong currency countries as well as weak ones, shows the effort they are making to restrain financial inflation. Portfolio positions are much less highly geared than they were in the 1980s (some of the lessons of history do seem to stick), so that any major correction is less likely to be tipped into panic by distress and stop-loss selling.

As a result, it is now fashionable to assume that the history of the 1929 crash simply cannot repeat itself: "they" would not allow it. This is very far from being a racing certainty, but there is at least a sporting chance that, if history is about to repeat itself, it will replay this time as farce.

Profile: Kiichi Miyazawa

Shy listener keeps calm under fire

THE ELFIN figure of Mr Kiichi Miyazawa, who celebrates his 62nd birthday next week, has gradually become familiar on the world stage in the past year. As one of the prime candidates to succeed Mr Yasuhiro Nakasone next month as Japan's prime minister, it could soon become even better known. As Japan's finance minister, Mr Miyazawa has been the man on the spot each time the dollar has trembled. One day he is seen sitting intently in his Diet seat in Tokyo, fending off the angry sallies of Japanese politicians worried about the effect of the rapidly rising yen on the economy of their constituents. The next, he is seen in Washington, on Capitol Hill, pleading with US officials to provide some support for the dollar, or at the least to stop talking it down.

Mr Miyazawa is also the man on the spot with respect to a number of other foreign pressures on Japan. It is his ministry that is blamed for the still-rigid controls on the country's financial markets. And it is the Ministry of Finance that is dragging its feet on abolishing a number of taxes that discriminate against imports.

For all the pressure on him, he has responded in the past year in the way one would expect of a civil servant turned politician - with calm and humour. When confronted, a few months ago, about the discriminatory nature of Japan's tobacco taxes, he suggested that the simplest way to solve the problem was for people to stop smoking.

Mr Miyazawa will need all his wits in the next few weeks as the campaign to succeed Mr Nakasone swings into high gear. He is in a difficult position - universally acknowledged by business leaders, bureaucrats and political commentators as the best qualified of the three leading candidates for the job, but the least likely to get it.

His qualifications include long experience of international financial affairs, fluency in English and a clearly stated desire to improve Japan's primitive infrastructure. Mr Miyazawa began his career in the Ministry of Finance in 1941 in the usual way - that is to say, after graduating from the law faculty of the University of Tokyo. He rose quickly to become deputy director of the ministry's banking and insurance bureau. He has no military record. In 1949, he became secretary to the minister of finance. An official profile says that he took "an active role" in Japan's post-war reconstruction efforts. He was also a member of the Japanese delegation to the 1951 San Francisco conference that negotiated the peace treaty between Japan and the US, ending the US occupation.

Mr Miyazawa left the civil service in 1962 to enter politics, following in the footsteps of his father. In a typical Japanese way, he had other family links to power. His cousin married the son of Zenko Suzuki, who was Mr Nakasone's predecessor as prime minister and former leader of what is now the Miyazawa faction in the ruling Liberal Democratic Party.

He was first a member of the upper house of the Diet, the

House of Councillors, but won election to the more powerful House of Representatives in 1967. He has represented a Hiroshima constituency ever since.

He has had a succession of senior cabinet positions, including that of minister of international trade and industry (MITI), director general of the Economic Planning Agency, foreign minister and chief cabinet secretary, enabling him to pursue his international contacts throughout his career.

For example, he participated in the Kennedy Round Gatt negotiations in 1967 and the first and second economic summits of the seven leading industrialised countries at Rambouillet and St Juan in 1975 and 1978. For all his qualifications, Mr Miyazawa does not enter the leadership race as favourite. He ranks a distant second or third in most straw polls taken these days. This is through no fault of his own, but is merely a reflection of the fact that his faction happens to be smaller than that of one of the other candidates. And in the corrupt world of Japanese politics, loyalty to faction is much more important than other considerations.

He is by no means out of the running. His faction has 89 Diet members, compared with 113 held by the leading candidate, Mr Noboru Takeshita, and 68 in the faction led by Mr Shinzaro Abe. And with another 158 Diet members belonging to other factions, the potential for deal-making is considerable.

However, Mr Miyazawa is, by his own admission, a shy man, and he may lose in part by virtue of not exerting himself enough to get the job. Some observers have been dismayed in the past year that his admirable tendency to listen to the views of others may have resulted in his reformist urge being blunted by the arguments of the very conservative finance ministry officials - a charge that he denies.

"You can judge for yourself if there has been any change in the policy of this ministry that is the result of the close co-operation between the minister and the ministry," he said in a recent FT interview.

Even if he does not become prime minister, he will undoubtedly retain a senior cabinet post and be in a position to assert his views. He has not yet published his full policy platform, but has indicated that he wants to see a restructuring of relations between Japan and the US.

"Knowing our relations for 40 years, I think they are basically sound. If anything, the problem lies here more than there. The Japanese people as a whole are not fully aware of their status; now in the international arena as well as in the relations of our two countries. It ceases to be a big brother, smaller brother relation. Maybe the US is bigger than we are, but that bigger brother, smaller brother concept must change."

He also believes Japan must become a political giant now that it is an economic superpower, and should use its power to help world economic development and to seek nuclear disarmament.

Ian Rodger

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PARIS

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Thinking international

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WORLD ECONOMY 10

The US

Deficit on the decline

AFTER A scare in the spring, when eroding confidence in the dollar sent interest rates spiralling upwards, the US economy is now on track to establish a new record for the longest uninterrupted cyclical upswing in the post-war period.

Private economists, echoing the confidence of Reagan Administration officials, are predicting that this year real economic growth will hit 2.5 per cent, and that 1988 will see a sixth successive year of expansion.

It is a projection that warms the hearts of Republican members of Congress and Republican candidates who fancy their chances to replace the retiring president and maintain their party's grip on the White House for a third consecutive four-year term.

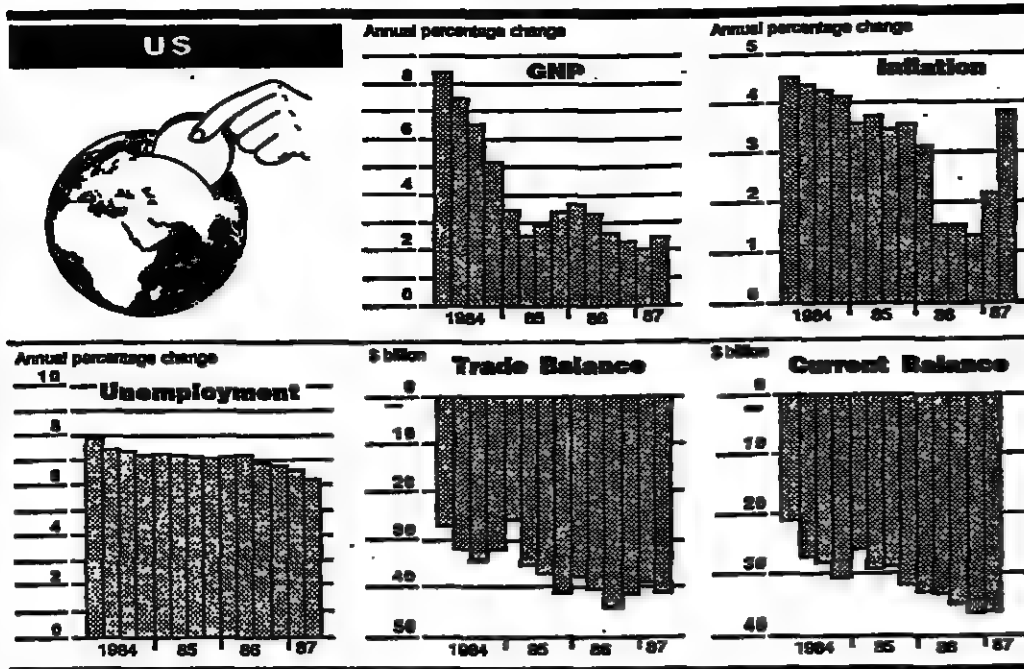
For it holds out the possibility that, in the run up to the congressional and presidential elections next year, the performance of the economy will not prove to be the liability for their party that they have feared and the Democrats have hoped.

Although the forecasters are projecting continued expansion, an unemployment rate nationally close to the current level of 6 per cent, and an inflation rate which should range around 4 to 5 per cent in 1987 and 1988, they are not doing so with very much confidence.

The slump in the dollar and the run up in interest rates in the spring served as a reminder of just how fragile these forecasts are, a warning that was repeated in the last few weeks in August.

Once again the dollar plunged, and the New York bond market collapsed, this time in response to news that the trade deficit had risen to \$16.7bn. And once again the Federal Reserve (this time under its new chairman Mr Alan Greenspan) was forced to come to the rescue, this time by raising the Discount Rate to 6 per cent, confirming the market's fears that the long cyclical downturn in interest rates since the start of the decade is over.

Behind the projections of further growth through 1988 is the judgment that the huge US trade deficit is now beginning to decline, imparting forward momentum to an economy which badly needs to see exports and capital spending replace the consumer and the government as the driving forces behind the expansion.



Were it not for the fact that, in volume terms, the trade deficit is already falling, a recession would probably already be looming. Mr Fred Bergsten, director of the Institute for International Economics, in Washington, has estimated that the improving trade balance could be adding around 1 per cent to real gross national product in 1987, and perhaps as much again in 1988. Export-led growth is underway in the United States, he maintains.

That the trade deficit in nominal terms - the monthly merchandise trade figures which attract so much attention - has yet to reflect the underlying improvement (the merchandise trade deficit hit a new record of \$16.7bn in July) reflects the fact that the higher price for imports, as a result of the dollar's decline, for a while offsets the volume gains.

But how certain is it that export-led growth will rescue President Reagan from the consequences of the folly of his fiscal policy?

The alarms in the foreign exchange and bond markets this year - which have sent long-term Treasury bond yields to 9.5 per cent, more than two full percentage points above their level when the year began - have underscored just how little confidence there is in the fi-

ancial markets that the US and the other industrial countries can correct the huge trade and fiscal imbalances threatening the world economy in an orderly way, and without precipitating a world wide recession.

In part, this lack of confidence reflected the evidence that US inflation was showing signs of revival. In the first two quarters inflation was running at around 5 per cent. The question now is whether this was just a temporary upsurge reflecting the rebound in oil and commodity prices and the dollar decline, or whether a new inflation spiral is underway.

The financial markets will be watching closely for the next few months, to see whether the inflation figures ease back. Any signs that inflationary expectations are being built into wage costs would cause concern.

Worrying, too, would be evidence that the US expansion will succumb to eroding confidence in the financial markets, particularly if foreign central banks continue to be so willing to commit fortunes to stabilising the US currency. One surprise in the past two years has been just how successful government intervention has been, in helping to smooth the dollar's decline, and stabilising currencies.

Stewart Fleming

Japan

Pessimists get it wrong

TO THE surprise of most forecasters, Japan's economy is suddenly recovering strongly. Industrial output is rising, partly in response to a major government stimulus of domestic demand, and so forecasts of capital spending and corporate profits are regularly being revised upwards.

Mr Akio Kono, chief economist of UBS Phillips and Drew in Tokyo, said recently of the recovery: 'It is a big surprise. The recovery is much stronger than we had previously thought. Real GNP growth in the second half will be 5 or 6 per cent, and the recovery will continue well into 1988.'

Analysts are also optimistic that inflationary pressures will be contained, even though the long downward trend of domestic prices has apparently come to an end. Until a couple of months ago, it looked as if the slowdown in growth which had hit the Japanese economy in the autumn of 1986, when the yen started to rise, would continue for some time. The trade surplus remained stubbornly high, upward pressure on the yen-dollar exchange rate was bursting out from time to time, and there was widespread scepticism that the Government would deliver on its latest promises to stimulate the economy.

However, the pessimists have been proved wrong on all counts. The yen, thanks to occasional massive intervention by the Bank of Japan in foreign exchange markets, has remained remarkably stable in the past year, moving for the most part in the ¥140-150 to the dollar range. And because the yen has stopped appreciating, the so-called J-curve effect has finally begun to wear off Japan's trade figures. (The J-curve describes the tendency of the trade surplus to widen in the initial aftermath of a currency appreciation, because foreign customers, lacking the time to find alternative sources of goods, continue to buy Japanese goods at higher prices.)

The combination of the removal of the J-curve effect and the stimulus to imports provided by the higher yen and higher oil prices has enabled Japan's trade surplus to drop rapidly in the past few months. In August, for example, the surplus was a third lower than it was in August 1986. Some private sector analysts believe it may fall to \$65bn in the current fiscal year to March 31, 1988, considerably below the Government's official forecast of \$81bn and well below last year's record \$102bn trade surplus.

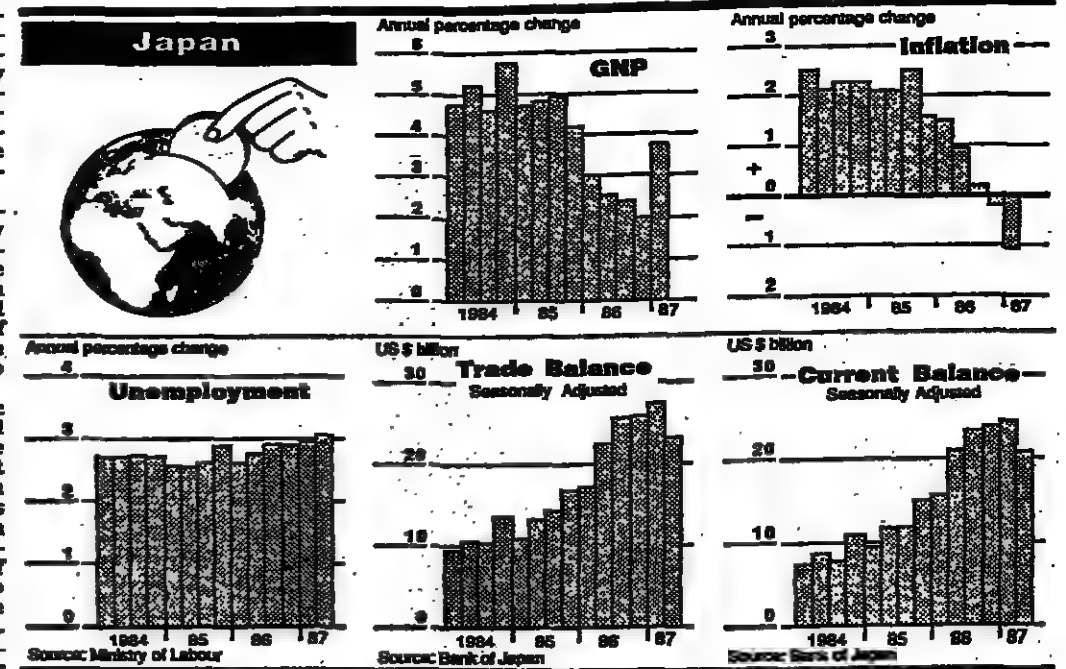
The importance of the decline of the trade balance can hardly

be over-emphasised. Japanese officials hope it will defuse a lot of the trade friction that has been threatening to cause a lot of damage to the Japanese economy. It may also lead to a change in sentiment in the foreign exchange market that would reduce upward pressure on the yen.

Meanwhile, the Government has moved quickly this year to implement a ¥8,000bn package of economic stimulative measures. There is some debate over how much of this ¥8,000bn is really new money and over the impact it will have. In the past, the Government has been slow in implementing its stimulative packages, and much of the money earmarked for public works has been wasted on high land purchase prices.

However, this time, extra efforts have been made to encourage local authorities to spend, and the Government has sought out projects which do not involve expensive land purchases. This has helped provide a stimulus to domestic demand, although it is now clear that consumption was already gathering momentum, simply because of the rapidly growing influence of the Japanese people. Department store sales, for example, grew at nearly a 5 per cent rate last year, and have remained strong so far this year. Housing starts were up 18.5 per cent in the first half.

Industrial production has been slower to recover, but it



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too is now on the mend. At the end of May, the seasonally adjusted mining and manufacturing production index stood at 132.2 (1980 base 100) compared with a peak of 123 in December 1986. However, it jumped to 125.4 in June, the highest monthly rise in six years, and added a further 0.4 in July. The Ministry of International Trade and Industry (MITI) is forecasting further growth for the next several months.

Even more encouraging, private sector capital spending has begun to pick up. The Government's Economic Planning Agency forecast in August that plant and equipment investment this year would rise 6.5 per cent compared with a drop of 0.3 per cent last year. Until recently, most forecasters expected that investment by manufacturing companies would continue to drop after last year's fall of 5.6 per cent, but now marginal growth in manufacturing investment is showing up in some surveys, showing that many manufacturers believe they can live with the high yen.

Corporate profits too have been rising. According to the Ministry of Finance, Japanese corporations' pre-tax profits rose 27.9 per cent in the April-June quarter to a record ¥7,499.8bn. The Nomura Research Institute has predicted that pre-tax profits of manufacturing companies will soar by 31 per cent in the current fiscal year, because of increasing do-

estic demand and firmer prices.

The result is that most forecasters now expect the economy to grow by at least 3.5 per cent in real terms in the current fiscal year. This is a considerable improvement not only on the 2.6 per cent growth last year but also on the consensus among economists a few months ago that growth this year would be only about 2.5 per cent.

The clouds on the Japanese economic horizon concern inflation and unemployment.

Money supply (M2 plus treasury bills) has been growing at over 10 per cent in recent months, and the Bank of Japan has become increasingly anxious about the possibility of a fresh outbreak of inflation. Some analysts believe that is why the central bank seemed reluctant to intervene in the currency markets last month in defence of the yen. However, inflation has so far been limited to share and land prices, and government officials remain confident that there will be no bottleneck inflation caused by the resurgence of domestic demand.

As for unemployment, earlier worries that it would rise well beyond the current level of just under 3 per cent appear to be receding. Jobs in manufacturing are disappearing at a rapid rate, but the expansion of non-manufacturing sectors appears to be taking up the slack.

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WORLD ECONOMY 11

The UK

Even neutrals are optimistic

BRITAIN IS not used to winning plaudits from international organisations for its economic performance. After decades of relative economic decline, in which its living standards have been overtaken by those of a string of smaller industrial nations, it is more used to references to 'the British disease'.

But last month's report on the country's economic outlook, from the Organisation for Economic Co-operation and Development, underlined some of the optimism that has now crept into the minds of neutral observers as well as government policymakers.

Despite the importance of the North Sea, Britain, the report said, had coped better with the impact of lower oil prices than many other industrial nations. Output growth in 1987 is likely to exceed that for most other (OECD) member countries. Recent developments also compare favourably with the disappointing long-term performance of the United Kingdom.

The OECD did not ignore the problems: an official unemployment figure of 5m, a worsening trade outlook, earnings running far ahead of an inflation rate already above that of the country's main competitors.

And in the carefully-codified language, typical of international organisations, it suggested that the recent successes were not due to rigid adherence to the policies first introduced by the Conservative government in 1979.

Instead, the faster growth rate

reflected a new flexibility and pragmatism in British policymaking, far removed from the mechanistic monetarism favoured eight years ago.

The growth rate is certainly impressive. Increases in output have averaged just over 3 per cent since 1982. For this year, Treasury economists are now expecting a figure of closer to 4 per cent.

That is likely to compare with just over 2 per cent in the 12-nation European Community as a whole, and with perhaps little more than 1.5 per cent in West Germany and France. It will also put Britain ahead of Japan and the US, both of which expect growth of around 3 per cent.

Manufacturing exports, the traditional weak link in Britain's performance, have staged a revival. The more pessimistic forecasts, that the country would face a massive current account deficit as a result of the halving of North Sea oil revenues, have receded.

The impressive performance of manufacturing industry dates back to last autumn when the Government allowed a sizeable fall in the pound's value, in a delayed reaction to the oil price collapse earlier in the year.

With the inflationary impact of the depreciation offset by lower fuel prices and weak international commodity markets, the result was one of the few successful devaluations in recent history.

Some of the resulting competitive gains were eroded when

sterling was allowed to rise again early this year and export growth has slowed. But the Government's subsequent commitment to exchange rate stability at around present rates has helped underpin industrial confidence.

Investment, which was abysmally low in 1986, appears to be picking up in response to the more stable environment, while productivity is rising strongly, offsetting temporarily at least the impact of higher wage costs than elsewhere.

A good deal of the improvement in productivity is cyclical - a result of the strong bounce in output since early last year. It also reflects the fact that much of industry's most inefficient capacity was scrapped during the massive slump in output during the 1980-81 recession.

There are signs, however, of a more underlying improvement in productivity, perhaps pushing up the annual growth rate in manufacturing to the 4 per cent or so typical of the 1980s, against a figure of 1 per cent or less seen in the late 1970s.

The output and productivity gains have been accompanied by rising corporate profitability. The rate of return on industry's capital, which hit a low point of 5.7 per cent in 1980, is expected by the OECD to average 8.5 per cent this year.

The strength of the economy - and a tilt towards consumer-led demand - has also been reflected in a steady improvement in the Government's finances, de-

spite a steep decline in oil revenues and still-rising public spending. Mr Nigel Lawson, the Chancellor, has been able both to reduce the public sector financial deficit to about 2.5 per cent of GDP and to announce progressive reductions in tax rates.

A further reduction in the basic rate of tax, from 27p to 25p, is widely expected in next year's Budget, as are cuts in the top rates which at present range from 40 to 60 per cent.

Such a snapshot of the economy at its best, however, should not be allowed to obscure the medium term problems that still have to be faced. As the OECD comments: 'There is no reason for complacency... These appreciable developments follow a long period of relative decline and occur against the background of an unsatisfactory performance of other major economies.'

To put that further in perspective: an analysis last month by the respected National Institute for Economic and Social Research indicated that labour productivity in the manufacturing sector is more than 2½ times as high in the United States as in Britain. In West Germany it is nearly 80 per cent higher, and in Japan 75 per cent higher.

And there are several outstanding concerns. The dependence, so far at least, of economic growth on rapid increases in consumption may translate into a serious balance of payments constraint.

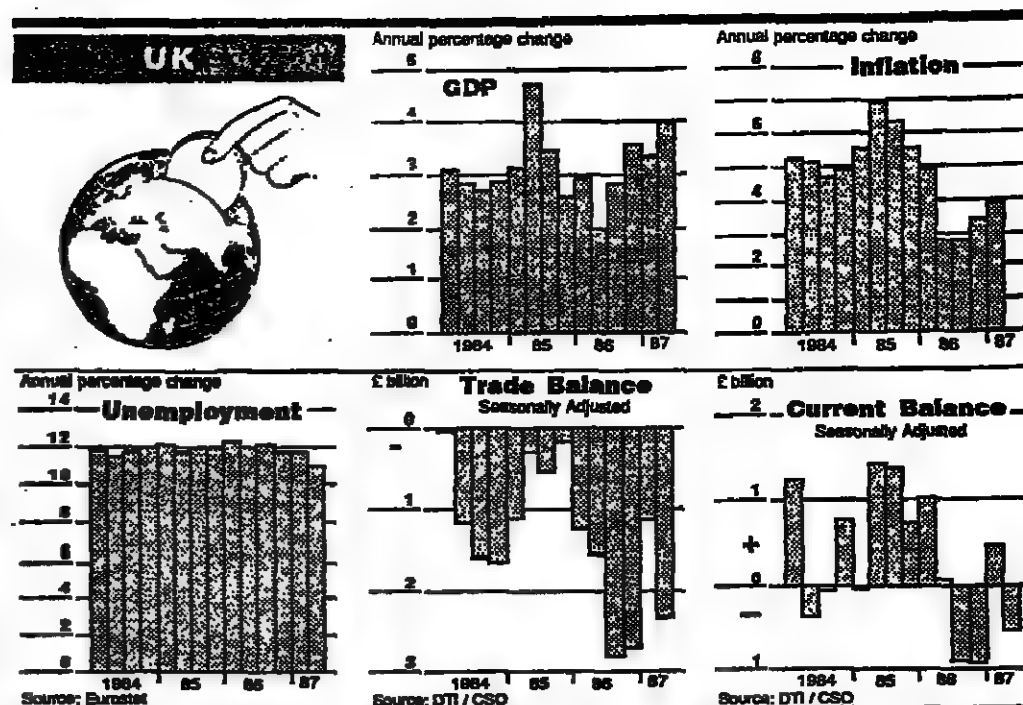
Although the deterioration so far in the current account has not matched some of the more pessimistic forecasts, the consumer spending boom has exacerbated the longstanding upward trend in import penetration.

The non-oil trade position has moved from rough balance in 1980 to a forecast deficit of around £13bn in 1987. The £3bn current account surplus, typical of the 1980s, look like turning into deficits of roughly the same magnitude by 1988.

Prospective current account deficits in themselves would not necessarily be a problem - Britain has built up overseas assets of £114bn, making it the world's second largest net creditor after Japan.

The worsening trade outlook, however, has to be seen against continuing rapid growth in average earnings which, despite productivity gains, is keeping inflation higher than elsewhere and continuing to erode industry's competitive position.

Despite the high level of un-



employment, the pace of earnings growth has been stuck at between 7.5 and 8 per cent for several years, leaving the core inflation rate at around 4.5 per cent. A downward shift in earnings and prices is seen by the OECD as essential both to hold out the prospect of any sizeable reduction in unemployment and to achieve a sustainable external position.

Philip Stephens

France

Setting a new course

DESPITE A sudden and still unexplained attack before the summer holidays of popular voters over the underlying competitiveness of the national economy, France still enjoys a comparatively favourable position vis-à-vis its main trading partners.

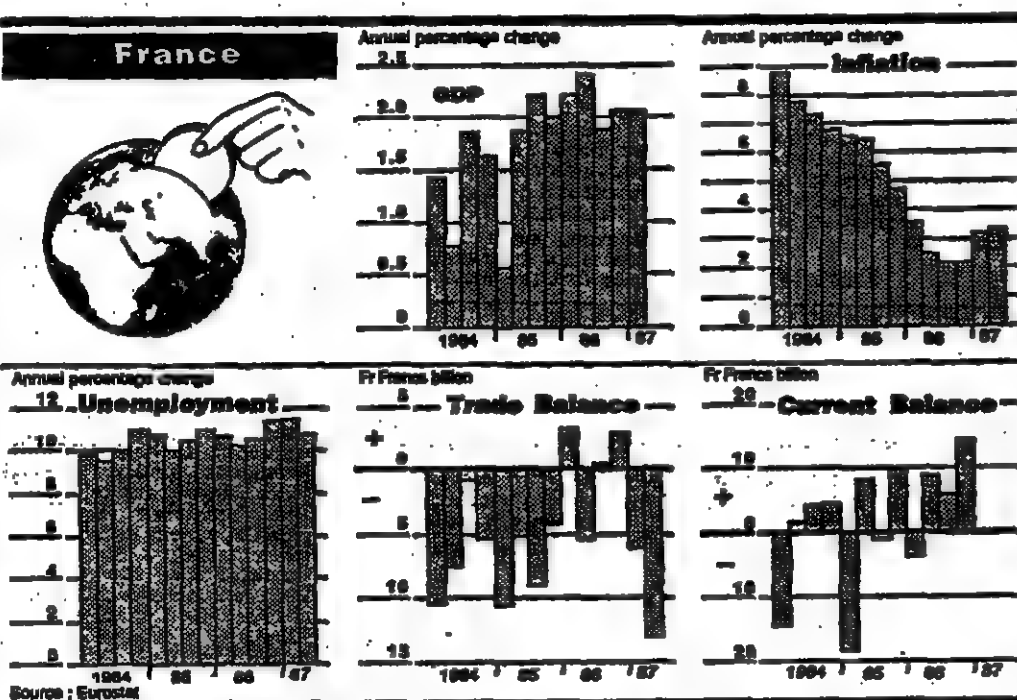
The economic situation has, it is true, deteriorated somewhat since last year, but as the OECD points out in its mid-year assessment, *Economic Outlook*, 'a number of underlying trends still point in the right direction'.

The deterioration is clear-cut: activity has slowed, while unemployment has risen and inflation has re-accelerated. On the other hand, the positive elements are also clear: wage growth is expected to remain moderate, at least partly because of the rise in unemployment; and the rise in unit labour costs should be among the lowest among the major OECD countries.

Improving external competitiveness should make possible a return to the export market shares, at least in European markets; and the strong growth in profits that took place last year should prompt companies to step up their investment. And yet in the political context of next spring's presidential election campaign, which in practice has been under way ever since the general elections of March last year, the indications of economic downturn seem more salient than the symptoms of underlying strength.

● The growth rate of GDP is expected to slow this year almost by a full percentage point, from 2.2 per cent to 1.3 per cent; ● Total employment is forecast to decline by 0.5 per cent, raising the rate of unemployment from 10.7 per cent to 11.2 per cent; ● The rate of inflation is expected to rise from 2.1 per cent to 3.5 per cent; and ● The surplus in the current balance of payments, which reached FF23.6bn in 1986, is likely to disappear in 1987 and be replaced by a bare equilibrium.

The deterioration in the external balance is partly due to a decline in exports of arma-



ments, a field in which France has traditionally been one of the world's leading suppliers. In 1986, the armaments surplus reached a total of FF24.3bn, whereas during the first five months of this year it was running at a significantly lower level, around FF2.1bn a month. INSEE, the French national statistical office, warns that this could be the beginning of a lasting phenomenon. On the one hand, the decline in the oil price has sharply reduced the purchasing power of France's leading customers for armaments; on the other, the decline in the value of the dollar and the pound have given an edge to France's main customers in this field.

The problem is that there has also been a deterioration in the external balance of non-military manufactured goods, notably in a dip during the first quarter of this year in exports of capital equipment. From one year to the next, INSEE forecasts that the export surplus in manufactured goods will fall from FF35bn in 1986 to FF19bn in 1987.

However, the current account was in surplus in 1986 to the tune of FF26bn, or 0.5 per cent of GDP, which made it easier to reduce the Government's external debt to a total of FF7bn. On the whole, the OECD judges that conditions are ripe for continued restructuring of the French economy, but warns that there are still major uncertainties, especially over corporate behaviour.

In particular, it claims that competitive pressures are still insufficient in many sectors, and that continued recovery will need more efficient production and sustained investment. The problem here is that companies may hold off from investment because of uncertainties over the future, starting with the political outlook after the forthcoming presidential elections, especially since the high returns on financial investment may seem more attractive than investment in capital equipment.

If major uncertainties remain over corporate behaviour (to quote the words of the OECD report), this is scarcely surprising.

For decades - some would say for centuries - France has depended on a state-centred tradition of economic activity, and the assumptions of administrative intervention and effective protection (scarcely disguised as 'market organisation') survived unscathed the first quarter-century of the so-called Common Market of the European Community.

In reaction to five years of socialist government, the 1986 elections brought to power perhaps the first government in French history to be genuinely committed to a liberalised, non-protective economic policy. This conversion to free-market ideas is the more remarkable in that the Chirac government lays much greater emphasis in its public declarations on the target date of 1992, set by the EC for the final removal of all obstacles to trade between the member states, than it does on the date for the presidential elections, or than Mrs Thatcher's government (normally identified as a standard-bearer in the shift towards

Continued on page 12

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WORLD ECONOMY 12

Profile: Michel Camdessus

Gallic hands prove safe enough

WHEN MICHEL Camdessus, the head of the French central bank, took over from his fellow countryman Mr Jacques de Larosiere as managing director of the International Monetary Fund earlier this year, those inside the secretive Washington-based institution were under no illusions about the daunting challenge he faced.

Today, however, even some of those IMF officials who had reservations about the choice are saying privately that perhaps their initial judgments were wrong, and that Mr Camdessus may prove to be the best man for the job at this point in the IMF's history.

Arguably, no managing director of the IMF has taken office amid such controversy and at so difficult a moment in the institution's evolution.

In part, it was the fact that the issue of who should replace Mr de Larosiere developed into such an unseemly public fracas that accounted for the controversy surrounding the appointment.

The European countries, who by tradition nominate the fund managing director, were unable to decide among themselves whether they would prefer Mr Camdessus or his chief rival Dr Onno Ruding, the Dutch finance minister, to fill the job; and Dr Ruding, somewhat surprisingly, mounted a public campaign for the post, a campaign which backfired.

The opposition to Mr Camdessus focused in part on the fear that the IMF managing directorship was in danger of becoming something of a French preserve at a time when several other top international monetary jobs are also in gallic hands.

But there was also concern that Mr Camdessus, a man who had won a reputation as a friend to the developing world during his tenure as chairman of the Paris Club (the agency which renegotiates official debts with developing countries), would not be a tough enough leader at the IMF.

The fact that several major developing countries favoured him, and eventually were decisive in ensuring his selection, only deepened the reservations among some of the more conservative industrial countries.

But there was more to the con-



Mr Michel Camdessus has worked through the Paris Club to help Egypt, say officials

troversion than just the questions about the economic policy prescriptions of the man. Mr Camdessus's appointment came at a time when the question of the future role of the IMF itself, at least so far as its involvement in the Third World debt crisis is concerned, was also being hotly debated.

The initial crisis phase of the debt problem was clearly passed, and the authoritarian style of IMF leadership provided by Mr de Larosiere needed to change. Not only was IMF crisis management not up to the job of forcing commercial banks to commit large sums of 'new' money to debt-burdened borrowers, the IMF itself had, in the words of Mr Paulo Sotera, a leading Brazilian journalist, become 'Satanised' in the eyes of the debtor nations.

The credibility of the IMF recipe for economic rehabilitation, in the eyes of those nations who were being asked to apply the IMF medicine, was worn out. It was recognised therefore that the new managing director, if it was decided that the institution should continue to play a role in the debt crisis, would

need to effect a subtle transition in its role.

That transition would require the IMF, an institution which has essentially had a short-term time horizon when it has lent to countries in economic difficulty, to adapt its operations to the reality that the debt crisis is a long-term problem.

To do this, it will need to put greater emphasis on stimulating economic growth in the long term, without losing sight of the fact that its essential character is that it lends on condition that borrowers take the tough economic adjustment decisions which are also needed to improve their economic performance.

Were it to modify too much the conditions under which it provides funds, the discipline of its economic policy prescriptions would be eroded, undercutting the value of the 'seal of approval' that it can bestow on a borrowing country's economic policies, and which has been one of the foundations that private lenders have relied on in providing more funds.

Conversely, if it fails to mod-

ify its lending conditions to take into account the long term nature of the debt problem, its stature with the borrowing countries would diminish, further undermining its usefulness in the eyes of already sceptical debtor nations.

The fact that its major providers of funds, the industrial countries, are not in the mood to commit substantial new financial resources to the IMF, to make it easier for it to take a longer term view of how the economic adjustment process in borrowing countries should work, further complicates the task of changing its mode of operation.

Even before Mr Camdessus came onboard there were signs, in the IMF programme designed for Mexico and in the intensely controversial discussions over the problem of what role it should play in trying to help Egypt deal with its economic problems, that the IMF's role was changing.

Under Mr Camdessus, the signs of change have become more evident. Officials say, for example, that he has worked

through his old bailiwick, the Paris Club, to get lender governments more deeply committed to trying to help Egypt tackle its problems in a time horizon which stretches beyond the typical IMF programme.

In the weeks before the Venice summit, convinced that the IMF needed to play an active role in Africa (not least because of the large sums it has lent there and the danger that they could turn into losses), he came up with a bold proposal to establish a new \$7bn fund to finance the IMF's continuing involvement there.

This initiative was seen as evidence both of his readiness to take high-risk initiatives and of the determination and skill with which he can pursue his goal. He succeeded in getting the support of the heads of state at the Venice summit for the move after reportedly outmanoeuvring a sceptical US Treasury. Whether he will succeed in bringing the initiative to fruition remains to be seen however.

Unlike his predecessor - who hid his personal warmth from his staff and the people he dealt with, drove the IMF bureaucracy mercilessly, and held the reins of power tightly in his own hands - Mr Camdessus applies his personal charm to try to achieve his goals. But he does not shrink from tough decisions.

For example, with very little fanfare and without the sort of public recrimination which has accompanied the World Bank reorganisation, he has carried out a sweeping reform of the IMF staff.

One only has to look at the storm clouds on the horizon, the continuing refusal of Brazil to negotiate a programme with the IMF, the threat that Argentina will take a much tougher line vis-à-vis its creditors, to see that Mr Camdessus's term as managing director is likely to be as exciting as Mr de Larosiere's; perhaps even more so, if the United States finds itself forced to turn to the IMF again for funds.

Unlike Mr Barber Conable at the World Bank, however, Mr Camdessus's first months in office have inspired confidence that the institution is in good hands.

Stewart Fleming

Profile: Alan Greenspan

Seeking credibility in Volcker's shadow



Mr Alan Greenspan decades of experience

ONE MONTH after taking office, Mr Alan Greenspan, the staunch Republican and former chairman of the Council of Economic Advisers under President Gerald Ford, who replaced Mr Paul Volcker as chairman of the Federal Reserve Board, moved to underpin his rhetoric with a practical demonstration of his anti-inflationary zeal.

With the financial markets speculating that the new chairman had already tightened monetary policy, or was on the verge of doing so, the Fed announced on the morning of Friday September 4, ahead of the long Labour Day holiday weekend, that it was increasing its discount rate by half a percentage point to 6 per cent - the first such increase since April 1984.

It is a move which Mr Greenspan's friends on Wall Street will have welcomed. One of the biggest challenges facing him at the central bank is to emerge from the shadow of his legendary predecessor and build credibility in the world's financial markets as a man who will be no more tolerant than Mr Volcker of inflationary pressures.

For, at a time when the huge US current account deficit has made the economy dependent on foreign capital, and fiscal policy remains straitened, it is the credibility of the Fed's monetary policy, and therefore of the chairman of the central bank, that is Washington's strongest bulwark against an economic disaster.

There can be little doubt that the unanimous decision, by Mr Greenspan and three of his colleagues on the Fed board, that a discount rate increase was called for will have helped to reassure some sceptics. They have been suggesting that the new Fed chairman, in part because of his desire to see a Republican elected president next year, would not act as decisively as his predecessor in trying to prevent inflation getting out of control again.

Indeed, some Wall Street economists were quick to conclude that the move signalled

that the Fed was ready to move to fight inflationary expectations. It could indeed, they argued, quell the financial market's fears about Mr Greenspan's own anti-inflationary zeal.

But this must remain an optimistic assessment. The test imposed by the discount rate decision was one which had not been difficult for the new chairman not to pass. More difficult judgments almost certainly lie ahead.

Moreover, if the new Fed chairman is to emerge as a figure as influential on the world stage as his predecessor, and therefore to help provide the economic policy leadership which increasing international interdependence requires from the US, he will have to do more than merely draw upon the knowledge he has gathered as an economic consultant and an adviser to Republican presidents.

The 61-year-old Mr Greenspan brings to the job decades of experience as an economist. It was in 1963 that he set up his economic consultancy firm in New York, Townsend Greenspan. Over the years he has built a reputation as an expert economic forecaster, and a man who immerses himself in the intricate details of economic statistics in order to come to his judgments. There is little doubt that he knows far more about the US economy, particularly about American industry, than any of his peers, and certainly more than Mr Volcker.

He is also a man who has, in the past, demonstrated his conviction that inflation is indeed a scourge that cannot be tolerated if the economy is to function efficiently.

But alongside these considerable assets, Mr Greenspan also possesses liabilities - some of which were evident when he testified before the Senate Banking Committee in his confirmation hearings.

Rightly or wrongly, he is viewed with suspicion by many on Wall Street, and of course by Democrats on Capitol Hill, because of his Republican roots. Both the markets and some Democrats worry that he, and a Fed board consisting entirely of people appointed by President Reagan, will run an easy monetary policy aimed at keeping the economy rolling forward in the run up to the 1988 elections.

While the September decision to raise the discount rate begins to address this doubt - indeed, it may have been influenced in

part by the desire to ease uncertainties on this score - the fact remains that the plunging bond market, in the weeks before the Fed moved, represented a big threat to US economic expansion. The increase in a discount rate, which was already low by comparison with money market rates. The weakness of the dollar and the evidence that the US economy was picking up steam reinforced the case for a monetary policy tightening.

Those who have doubts about Mr Greenspan's effectiveness at the Fed also point out that, as an economist, his expertise has been primarily in the field of the US economy, in particular its industrial sector, rather than in the knowledge of general and international finance in particular; and that he certainly does not have the years of experience in international economic diplomacy and economic policy making that Mr Volcker brought to the job.

This is a significant gap at a time when there is widespread agreement that economic policy co-operation between the major industrial countries could help to resolve ominous imbalances in the world economy.

Mr Greenspan's judgment, in his confirmation hearings, that the president is right to resist a tax increase in order to tackle the budget deficit, was good domestic politics, but did not go down well abroad. Some developing country officials, not to mention Senator Bob Graham of Florida, who asked the question, seemed less than impressed, too, with his judgment that we would know that the Third World debt crisis was over when heavily indebted countries could borrow again on the Euromarkets.

There are some in the Federal Reserve who believe that Mr Greenspan, like others in the past who have been appointed to the board, will quickly absorb the unique culture of the institution and, when faced with the practical complexity of policy making in the central bank, his essentially pragmatic nature will enable him to make the sound judgments on the wide range of economic and political issues which a Fed chairman has to deal with.

The sceptics, particularly decision makers in the financial markets, remain to be convinced, however.

Stewart Fleming

Brighter but not much

Continued from page 1

It is those circumstances a decision this week to re-affirm the Louvre accord is likely to represent the continuation of what one senior European official confessed was a policy of 'muddling through'.

The approach to the debt crisis is likely to be similarly 'pragmatic'. As the IMF's annual report emphasises, slower growth in industrial countries, further declines in real commodity prices, and a virtual cessation in private sector lending has dealt a further blow to the financial position of developing and heavily-indebted nations.

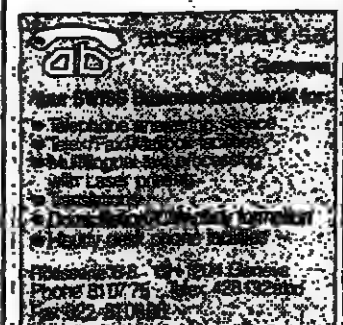
Despite a very low level of borrowing and the fall in interest rates in 1986, the developing countries' ratios of debt and debt service to exports continued to worsen.

The decision by major US and UK banks dramatically to increase their provisions against sovereign debt looks, at first sight, like welcome realism, but the risk is that it will lead to a hardening of their position in future debt negotiations.

That would coincide with increased evidence of a steady erosion in the indebted countries of the political resolve and support needed to push ahead with structural adjustment programme - a trend underlined by the recent elections in Argentina.

'Adjustment programmes involve difficult choices for governments, and political support cannot be sustained unless adequate finance needed to implement these programmes is made available', the World Bank concluded in its annual report.

The problem is that the industrialised world needs to do a lot better than muddle through with a 2.5 per cent growth rate to offer any realistic prospect of that happening.



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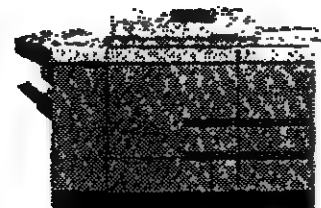
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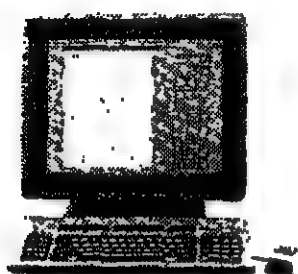
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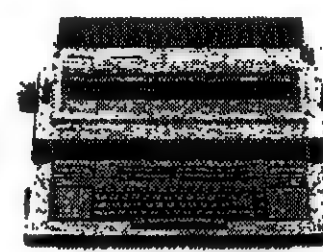
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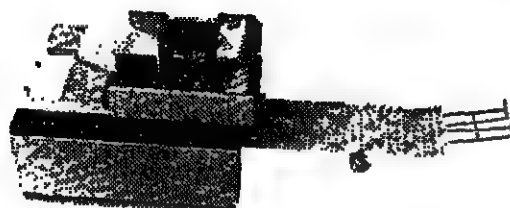
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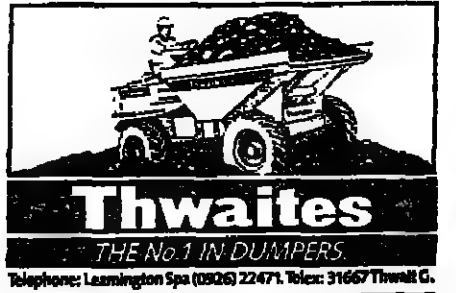


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SECTION II - COMPANIES AND MARKETS

FINANCIAL TIMES

Monday September 28 1987



INTERNATIONAL BONDS

Determined search for elusive retail investor

"A WEEK'S long time in the Eurobond market; after all, seven days ago we were saying the Eurodollar sector was coming alive again," commented one dealer gloomily on Friday.

The week before last ended on a cautiously optimistic note for the Eurobond market, since two large dollar issues for Italy and Sweden had been launched successfully. So some dealers were declaring that retail buyers of Eurodollar bonds could still be found, provided borrowers kept out of the long-end of the yield curve.

On Friday, the Financial Times did in fact receive an inquiry from a retail investor in south east England, wanting to know where he could buy Eurobonds.

Eurobond sales teams were having less luck in tracking down these elusive beings, as was underlined by the dismal performance of last week's two shorter-dated bonds for the US corporates Ford Motor Credit and American General.

Ford Motor Credit's three-year issue, launched on Wednesday at an

initial yield margin of 80 basis points over the US Treasury yield curve, was yielding some 10 basis points more than this by Friday and was bid at less two, against 1 1/4 per cent fees.

The performance of American General's bond, which carries a seven-year maturity but with an investor's put option after three years, was hardly more edifying. Priced at 50 basis points over the US Treasury curve, it was bid at less 2.50 and its yield margin had widened to about 80 basis points.

Admittedly, these issues came during a week when bond markets were afflicted not only with unease ahead of the weekend meetings of economic policy-makers in Washington but also with worries about rising inflation.

Nevertheless, on Friday afternoon Italy's \$1bn three-year bond was trading at a yield spread of about 50 basis points over the Treasury yield curve - some 10 basis points tighter than at launch - although this implied a price outside its 1 1/4 per cent fees.

EUROBOND MARKET (US\$)									
Primary Market	Secondary Market	Other	Other	Other	Other	Other	Other	Other	Other
US\$	1,280.0	282.0	13.4	5,038.0	20,228.4	1,188.5	6,527.0	15,883.1	21,773.2
Yield	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Other	916.2	282.1	194.5	434.2	14,891.7	30,882.8	19,485.5	31,821.9	15,719.1
Yield	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Other	1,043.5	548.0	—	995.0	10,110.7	25,228.0	45,028.6	30,210.6	19,485.5
Yield	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00

This contrast provided further grist to the mill of those who maintain that the Eurobond market is now sustained by treasury departments seeking alternatives to money market instruments, rather than by retail buyers.

This is because such liquidity managers find a sizable issue for a sovereign credit an acceptable investment, while a \$200m bond for a US corporate borrower, such as Ford, is not.

Yields rose in all the main bond markets - except the Danish kroner market - last week as a host of signals rekindled unease about rising

world-wide inflation. Notable among these was the 0.5 per cent August rise in US consumer prices and a statement by Mr Satoshi Sumita, the governor of the Bank of Japan, that the prospects for inflation should now take first priority in Japan's economic management.

In the D-Mark bond market, prices moved downwards in sympathy with US Treasury bonds. D-Mark dealers received an additional shock when the Bundesbank increased the rate on its securities repurchase agreement from 3.80 to 3.85 per cent, even though the West German authorities insisted this

did not signal any tightening of their monetary stance.

In a continuing absence of retail buyers from both Euro and government bond sectors of the market, the one spot of light was the runaway success of a new DM2bn 5 1/2 per cent 10-year bond for the Federal Post Office.

But dealers noted that the issue had been priced to provide an unusually high yield, which was roughly comparable with those of domestic bonds issued by banks - a higher margin over West German government bond yields than would usually be expected.

However, the differential between yields on domestic bank bonds and government bonds has been narrowing markedly recently and now stands at only around 10 basis points. Dealers are hoping that this slim margin should provide an incentive for domestic investors to switch back into the government market.

The D-Mark Eurobond market has been in what one dealer described as a "torpid" state since the

mid-summer. New issue volume has dwindled because rising yields have kept borrowers on the sidelines, hoping for lower funding costs. At the same time, D-Mark-related swaps into other currencies have become increasingly uneconomic compared with alternatives in other currencies.

In this environment, West German bankers expect the new liberalising measure announced by the Bundesbank last week - whereby Japanese banks and securities houses will be allowed to lead management issues for the first time - to be very limited for the time being.

The main effect could be the diversion into D-Marks of some of the stream of equity warrant bonds for Japanese companies which the Japanese houses now launch in the Eurodollar market. However, this depends on the relative cost of swapping the proceeds back into yen: at present this can be achieved at a rate of about 1 per cent in the Euro-dollar market.

Clare Pearson

NYSE attempts to untangle bid battle for Newmont Mining

BY JAMES BUCHAN IN NEW YORK

THE NEW YORK Stock Exchange intervened over the weekend in the tangled legal battle for control of Newmont Mining, the US gold and energy group, when it attempted to uphold last week's huge purchase of Newmont Mining stock by Consolidated Gold Fields, the UK mining finance house.

In a suit filed in a New York state court, the exchange is seeking to block efforts by Mr T Boone Pickens, the Texas oil man, to invalidate the purchase of 15.8m shares of Newmont Mining by Gold Fields. The exchange said that undoing the trades would cause "irreparable" harm.

The stock, which was bought on Tuesday in a breathtaking \$1.55bn "sweep" on the exchange floor, would give Gold Fields a 49.7 per cent holding in Newmont Mining - enough effectively to thwart a Pick-

ens tender offer for 51 per cent of the \$6bn company.

In its motion to intervene in the case, the exchange urged the Delaware chancery court not to accede to the request of the Pickens group and enjoin Gold Fields from settling the share trades. The Pickens group, which is known as Ivanhoe Partners, alleges that the shares were purchased by Gold Fields as part of an illegal agreement with Newmont Mining to "lock out" other shareholders.

While stressing its neutrality in the takeover struggle, the exchange warned that an injunction against the transactions would mean "a chain of defaults would be set off, seriously disrupting" the operations of the stock exchange. Investors could never rely on the finality of any particular sale of their securities, the suit said.

EUROCREDITS AND NOTES

Chase wins mandate for \$500m American Airlines standby deal

AMID TOUGH competition from seven other bank groups, Chase Manhattan has won the mandate to arrange a \$500m standby financing for American Airlines.

American, regarded as one of the most cash-rich of the US airlines, is about to embark on its most significant capital expansion yet.

According to Mr Roy Grant, managing director of banking at the airline, it is running down its cash balance - which has been around \$1bn for the last two years - to about \$500m. It wants the financing to give it similar flexibility to its cash balances, and consequently does not expect to draw down the financing.

Chase is underwriting the full amount of the financing, which is in the form of a multi-option facility

carrying a five-year maturity, extendible to eight. Banks can opt out in the fifth, sixth or seventh years, if they give five years' notice.

Mr Grant declined to specify the terms. But the airline is not known for giving much away, and the deal is certain to be aggressively priced. Best guesses by bankers suggest a facility fee of 7 to 7.5 basis points, an arrangement fee of close to 10 basis points and a borrowing margin of about 12.5 basis points.

Still with the airline industry, the story of the difficult \$1.5bn aircraft finance deal for GPA Group was almost wrapped up last Friday (except for the secondary syndication, which the 11 underwriting banks have been promised in six to nine months' time) when the deal was signed.

But not before the underwriters, already in for far more than they intended (about \$110m each), received one more nasty shock. Their final underwriting was increased by another \$7m each, as one bank cut the amount of its participation to \$25m from \$100m. The bank, Arab Banking Corporation, was said to have been dissatisfied with the documentation.

There was controversy too over Citicorp's \$800m short-term financing for Montedison, the Italian chemicals concern, to cover part of the \$1.8bn share purchase which will give it control of Hilmont, the US polypropylene manufacturer.

Banks committed a huge \$3.6bn for the deal in six days, underlining the flexibility of the market and somewhat reminiscent of the \$5bn

financing earlier this year for British Petroleum, to which banks committed \$1.5bn.

Bankers agree that borrowers can generally expect to pay more for acquisition finance required at speed. But many believe that the margin of 1/2 point was too rich, even for a borrower whose debt burden has been rising significantly. The evidence, they said, was provided by the extent of oversubscription and the yield and the speed at which the paper appeared in the secondary market.

The levels in the secondary market were quoted at 20 basis points, 17.5 basis points below that in the primary market, or even lower in some cases. While this implied a quick profit for the banks involved, that did not stop them complaining

about the transaction, probably because Citicorp's profit for underwriting the whole deal would have been even larger.

In other financings, Merrill Lynch has been mandated to raise \$100m in the form of a revolving underwriting facility for Swedbank of Sweden. The five-year financing is to be used as a standby to back up issuance of US and Euro-commercial paper.

Chase is raising a \$50m standby revolving credit for Nykredit, the largest mortgage credit institution in Denmark which is about to embark on home lending in the UK, Germany and France. It has a five-year maturity, a commitment fee of 5 basis points and a margin of 12.5 basis points.

In sterling, National Westminster

Bank was awarded the mandate to raise £140m for Chase Property Holdings.

Associated British Ports announced a £50m sterling commercial paper programme, arranged by Kleinwort Benson, with BZW and County NatWest also acting as dealers. The State Bank of Australia announced a £50m sterling certificate of deposit programme with Baring Brothers and S.G. Warburg as dealers.

Most exotic deal of the week was in French francs for Cameroon. It is borrowing FF183.5m to finance tractor imports from Brazil. Cameroon pays 8 per cent and the Brazilian export credit agency tops this up to Libor plus 2.375 per cent.

Stephen Fidler

Amro unit buys stake in US services group

By Our Financial Staff

EBC AMRO, the London-based merchant banking arm of Amro Bank of the Netherlands, has bought a 30 per cent stake in Amsterdam Pacific Corporation in San Francisco. APC was formed last year to provide investment banking services to companies primarily in the western US.

APC's management will retain a 55 per cent interest in the company, with the remainder held by Bechtel Investments.

China International Trust and Investment Corporation (Citic), China's leading overseas investment organisation, is investing in a development fund of \$6m which will be managed by APC.

Austrian group expands with bourse debut

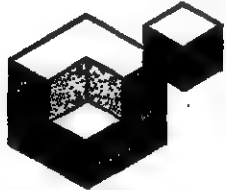
By Judy Dempsey in Vienna

RADEX-HERAKLITH, the Austrian building, insulation and fire-fighting equipment group which exports to over 70 countries, is floating 25 per cent of its shares on the Vienna stock exchange today as part of the group's expansion programme.

The public will be offered 858,000 shares at a nominal value of Sch100 (\$80) per share. About 4 per cent of the shares will be earmarked for the foreign market.

Radex-Heraklith was sold in a management buyout by General Refractories of the US for Sch800m to Girozentrale, the Austrian bank, in April. The bank was acting for a consortium of international investors.

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New Issue / September, 1987

U.S. \$150,000,000

CAECL
Caisse d'Aide à l'Équipement
des Collectivités Locales
(Municipal Development Authority of France)

9 3/8% Notes Due September, 1995

Salomon Brothers International Limited

Banque Paribas Capital Markets Limited

Morgan Stanley International

Nomura International Limited

Shearson Lehman Brothers International

Algemene Bank Nederland N.V.

Bank of Tokyo Capital Markets Group

Banque Bruxelles Lambert S.A.

BNP Capital Markets Limited

Caisse des Dépôts et Consignations

Crédit Commercial de France

Crédit Lyonnais

Credit Suisse First Boston Limited

Mitsubishi Trust International Limited

Sanwa International Limited

Société Générale

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WYSE

Wyse Technology

(Incorporated in California)

U.S. \$75,000,000

6 per cent. Convertible Subordinated Debentures Due 2002

Issue Price 100 per cent.

J. Henry Schroder Wagg & Co. Limited

Shearson Lehman Brothers International

Merrill Lynch Capital Markets

Morgan Stanley International

The Nikko Securities Co., (Europe) Ltd.

L. F. Rothschild & Co. International Limited

Yamaichi International (Europe) Limited

BNP Capital Markets Limited

Barclays de Zoete Wedd Limited

County NatWest Limited

Dresdner Bank

Robertson, Colman & Stephens

Salomon Brothers International

Swiss Bank Corporation International Limited

Algemene Bank Nederland N.V.

Julius Baer International Limited

Bank of America

BHF-BANK

Continental Illinois Limited

Samuel Montagu & Co. Limited

Morgan Guaranty Ltd

Postipankki

Schroders Asia Limited

September 1987

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Fresh confidence nipped in the bud

WHATEVER THE potential scope for distortions in August's balance of payments, Thursday's figures undoubtedly confirm a deterioration in the underlying trend and could not have been less welcome the day after a rather thinly subscribed gilts auction.

By all accounts, retail demand for the auction issue was very poor—market talk suggests that at least two houses were left with a lot of unsold stock. The body blow for the rest of the market came on Thursday when primary dealers not only had to face an overhang of stock but a two point fall in prices.

There appears little doubt that the Bank of England had enough prior knowledge of the market to make the move which preceded the auction to have made last Thursday a reasonably auspicious date for the sale. The fact that the market was so weak on Thursday, and the unexpected blow to fragile market confidence from the trade figures, one supposes, was fortuitous for the authorities, who had to act before the market-making community.

The combination of last week's two principal factors seems to have been the tip in the scale for a market like this. The emergence of confidence after the disasters of the summer and the establishment of a range in single-figure yields. The fact that the 100/120s were sold on Friday, with a yield of somewhat above 10.1 per cent.

Perennial problem

Initial analysis of Anguara's trade figures (and the fact in itself that it was August) suggests there has probably been the perennial problem with the current account, which has been which caused a huge leap in the TOTI index for our import volumes.

There seems little doubt that the current gap between buoyant export growth and sluggish import growth cannot be sustained. If World growth has been particularly sluggish so far this year and the current slightly above-trend growth in the US is forecast to continue, it is likely that next year. The closing of this growth gap should naturally ease current unfavorable trends.

More comfort can be taken from the fact that strong growth has so far proved resilient to worries about the current account

deficit. The stability of sterling must lie behind the Chancellor's assertion that this order of current account is not inflationary and should also prevent any tightening of monetary policy. Domestic money markets seemed rock solid by the end of last week, which should be a steadying influence.

However, there were some genuinely gloomy aspects to the trade figures, not least the decline in capital goods in August, the one element in imports which government officials have pointed to as positive at least in the longer term.

Growing imports

Economists at Goldman Sachs point out the trend in both import and export volumes has sharply deteriorated since the first quarter of this year. They say exports have been about half of imports this period while import rates have been growing at annualised rates of more than 30 per cent.

And far from attributing some of the deterioration in exporting performance to sterling's rise this year, Goldman Sachs argues its recovery this year has actually improved the current account so far by depressing import prices.

The Chancellor's Budget forecast for a £2.5bn current account deficit this year **now** looks far less pessimistic than it was beginning to a few weeks ago.

Gifts recovered modest ground on Friday. Yields of more than 10 per cent do look more than fair value but there is now bound to be a sense of underlying nervousness in the market, at least until the next set

of trade figures on October 28. The next two weeks are going to be quiet as far as economic indicators are concerned, with only the official reserves figures for September, expected this Friday, and the retail price index for the same month, due on Friday next.

At least for the early part of this week, it seems likely that the gilt market will turn to watching the dollar's reaction to the frankly unexciting G7 communique published over the weekend in Washington. Although the foreign exchange markets are still a bit nervous and has not got it there, it is still scope for disappointment which could put pressure on the dollar.

Janet Bush

US MONEY AND CREDIT

All eyes fixed on Washington

TRANSFIXED LIKE frightened rabbits, bond, stock and foreign exchange investors around the world are staring towards Washington. They alternately hope and dread that something—almost anything—will come out of the finance ministers' and central bankers' cabals at the annual meeting of the International Monetary Fund and World Bank.

Yet what can the markets possibly expect the finance ministers to tell them that they do not already know? Nobody in Washington is suddenly going to repudiate the Louvre agreement on foreign exchange stability. Neither will the finance ministers tell the markets if they have changed the "reference ranges" within which the currencies are being manipulated, or say that a recession is imminent or that inflation is rising out of control.

Rarely, in fact, have the policies and objectives of international economic leaders been clearer, more consistent or

amendment. However, the President is now almost irrelevant, even in Washington, and the longer-term trend in Congress is clear—the budget deficits will be reduced, whoever wins the next election, though the change will be a very slow one.

On the monetary side, all three of the leading industrial nations are concerned about inflation expectations and in part about the rampant speculation in property and financial markets. As a result, there is a slight monetary tightening going on around the world, but it is not due to two all-important constraints. The tightening must not be allowed to upset the delicate balance in the foreign exchange market, which is still very far, since the objective is to undercut an inflation which is only incipient in America and only a future potentiality in Germany. On the other hand, pushing all of the world's economy into recession, on the other hand, is still very much

that currencies are being stabilised successfully through intervention, while every tightening of monetary policy is a further indication that inflation and economic growth are about to soar out of control.

Deep down, of course, investors realise that neither extreme view is true. Nobody who puts too much faith in G-7 forecasts may eventually lose a lot of money. And anybody who is too contemptuous of the central banks' ability to control their domestic inflation rates may miss out on a powerful recovery in the world's bond markets. Hence the extraordinary uncertainty in the markets at a time when international policies have rarely been more certain.

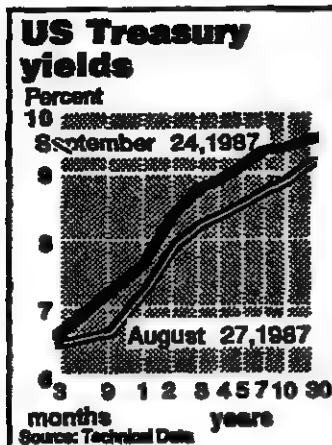
(Wednesday 8.30 am EDT) are expected to show an increase of 0.5 per cent, with estimates ranging from 0.2 to 0.8 per cent up.

● **Money supply figures** (Thursday 4.30 pm) will include the broad aggregates, M2 and M3, as well as the weekly M1 announcement. M1 is expected to be up \$3.7bn, with estimates ranging from \$1bn to \$4.5bn. M2 is forecast to grow by \$14bn, with a range of \$10bn to \$17bn and M3 by \$14.5bn with a range of \$9bn to \$21bn.

● **Unemployment** (Friday 8.30 am) should remain unchanged at 6 per cent of the civilian labour force, with estimates ranging from 5.9 to 6.2 per cent.

● **Non-farm payrolls** (Friday 8.30 am), a closely followed series which is thought to be a good advance indicator of industrial production figures, should be up by 190,000, with estimates ranging from 185,000 to 280,000.

Anatole Kaletsky



more united, than they are at present. For the time being, at least, all three of the leading industrialised countries want stable exchange rates and moderate economic growth in the 2 to 3 per cent range. Their fiscal policies have been announced and are unlikely to change in the foreseeable future; the US is very cautiously cutting its underlying budget deficit, while the Japanese and Germans have implemented all the stimulative measures which they intend to take.

President Reagan himself may be an exception to this consensus, judging by his indecision in signing the Gramm-Rudman deficit reduction

Why then are the markets waiting so neurotically for the authorities' guidance? Where are the swashbuckling individualists who used to tell the world only a few years back that central banks were powerless against the tides of speculation in the foreign exchange markets?

The people who used to say that currency intervention was doomed to failure were obviously wrong. Yet the pendulum may now have swung too far to the opposite extreme.

A parallel but opposite transformation has taken place in people's attitudes to interest rates and inflation. It used to be claimed, in the heyday of domestic monetarism, that tightening of monetary policy would actually reduce long-term interest rates, instead of increasing them, because of the favourable effect that tighter money had on inflationary expectations.

Bitter experience has shown this claim to have been greatly exaggerated. But this does not mean that monetary tightening is totally doomed to failure in dealing with inflation — which seems to be what many investors think, to judge by the carnage in bond markets throughout the world.

It used to be thought, in other words, that currency intervention was impotent while domestic monetary policy was all-powerful. Now the conventional wisdom seems to espouse the opposite view —

ET/AIBD INTERNATIONAL BOND SERVICE[illegible]

STANDARD BOND: Standard bond is a corporate bond that is not convertible and is not subject to a sinking fund. **RA NOTES:** RA notes are corporate bonds that are not convertible and are not subject to a sinking fund. **CONVERTIBLE BOND:** US dollars unless indicated. Premium—percentage premium of the current effective price of buying shares with the bond over the \$100 par value. **WARRANT:** Equity warrant—percentage premium over current share price. Bond warrant ex-yld—exercise yield at current warrant price. **Closing prices on September 25, 1997.**

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Majestic Wine Corporation

has acquired

LIQUOR BARN

a division of Safeway Stores, Incorporated
a company controlled by Kohlberg Kravis Roberts & Co

\$75,000,000 Senior Debt
\$25,000,000 Senior Subordinated Notes
\$15,000,000 Common Stock

The undersigned acted as
financial advisor to Majestic Wine Corporation
in the acquisition and arrangement of the financing

M.J.H. Nightingale & Company

Investment Bankers

730 Fifth Avenue
New York, NY 10019
(212) 333-8621

76 Bishopsgate
London EC2N 4AU
01-374 4181

August 15, 1987

This announcement appears as a matter of record only

Majestic Wine Corporation



\$75,000,000

Reducing Revolver and Working Capital Line
for the acquisition of

LIQUOR BARN

Financial Advisor
Security Pacific Merchant Bank
London

Agent and Underwriter
Security Pacific Business Bank
Los Angeles

Funds Provided By
Security Pacific National Bank Bank of Nova Scotia
Bacays Bank PLC Charterhouse Bank Ltd.

Security Pacific National Bank 

August 1987

\$25,000,000

financing arranged for

Majestic Wine Corporation

for the acquisition of the

Liquor Barn Subsidiaries

from

Safeway Stores, Incorporated

Senior Subordinated Notes due 1997

The undersigned acted as agent in the
private placement of the securities.

Kidder, Peabody & Co.

Incorporated

BARINGS

Baring Brothers advised Majestic Wine Limited
on the acquisition of a 52 1/2% interest in
Liquor Barn for a 33 1/3% equity subscription.

Baring Brothers also arranged the underwriting
of a private placement of Majestic Wine Limited
shares with Govett Strategic Investment Trust PLC.

Baring Brothers & Co., Limited
(International Mergers and Acquisitions)
01-283 8833

Baring Brothers Incorporated
(International Mergers and Acquisitions)
212-755 8170

Baring Brothers Hambrecht & Quist Limited
(European Venture Capital Specialists)
01-408 0555

Baring Capital Investors Limited
(European Management Buy-out Specialists)
01-408 1282

Majestic Wine Corporation

a partially owned subsidiary of

Majestic Wine Limited

has acquired

Liquor Barn

a division of

Safeway Stores, Incorporated

The undersigned originated this transaction and acted as
financial advisor to Majestic Wine Corporation

Morgan Grenfell Incorporated
New York

Morgan Grenfell Group Offices in:

Adelaide Athens Auckland Bogota Caracas Edinburgh Frankfurt
Geneva Grand Cayman Guernsey Hong Kong Istanbul Jersey Kuala Lumpur
London Madrid Melbourne Milan Moscow Nairobi New Delhi New York
Paris Perth Quito Rio de Janeiro Singapore Stockholm Sydney Tokyo

August 15, 1987

INTERNATIONAL CAPITAL MARKETS and COMPANIES

Bernard Tapie to remould empire

By George Graham in Paris

BERNARD TAPIE, France's most instantly recognisable businessman, is abandoning his speciality of taking over and rebuilding failed companies and is signing up with some of France's oldest financial names to reorganise his interests.

Mr Tapie, who has often aroused the distrust or even the contempt of the Paris establishment, is setting up a new FF800m holding company, to be named Bernard Tapie Finances, with profits forecast at FF120m (\$18.9m) this year.

The Tapie empire includes such offshoots as La Vie Claire, a diet foods company (in which Booker, the UK group, holds a 38 per cent stake), Terrillon, the kitchen scales maker, and the producers of Mazda and Wonder batteries.

Some of the shakier Tapie holdings, admittedly, are not to be included in Bernard Tapie Finances, in which Mr Tapie himself will hold 57 per cent.

The rest of the new group will be controlled by a Who's Who of French finance, from Banque Worms and Assurances Générales de France to the Crédit Lyonnais and Frandev, the investment company of Mr Pierre Moussa. While Mr Tapie puts up the group's businesses, they supply FF300m of cash.

A stock market flotation is planned for next year.

The flamboyant Mr Tapie, who has a real gift for self publicity coupled with an enthusiasm for sponsoring sports such as cycling and football, says he can no longer carry on the trade of picking up and shaking bankrupt companies.

"I am no longer psychologically strong enough for dismembering businesses and cutting into the flesh," he says.

Instead, he plans to turn himself into a "third-generation businessman," focusing on family-owned companies with a succession problem.

The most immediate problem for Mr Tapie is his football team, Olympique de Marseille, which took over as his main sporting interest after the retirement of Mr Bernard Hinault.

Asea reaches agreement with unions on merger

BY KEVIN DONE IN STOCKHOLM

ASEA, the Swedish electrical engineering group, has reached agreement with local trade unions on its planned merger with BBC Brown Boveri of Switzerland, a deal which will create the world's biggest electrical engineering concern.

The Swedish trade unions have no power to block the merger, but the local blue-collar workers' unions' continuing opposition could have weighed heavily with Sweden's Social Democratic Government, which has yet to give its approval for the merger.

Mr Percy Barnevik, Asea chief executive, said the company had given a guarantee to the Government that no change would be made in the 50 per cent stake to be held in the new concern by the existing Asea parent company, without permission first being obtained from the state.

The veto right applies to the sale of shares and the issue of new voting shares.

Asea has refused to give in to union demands for representation on the board of the new company on the grounds that it cannot enter into agreements about establishing transnational trade unions.

It has been agreed, however, that the Asea Brown Boveri chief executive will meet representatives of the local Swedish unions at the beginning of 1989 to discuss "the way in which information and participation matters have functioned during the first year of operations."

Asea has guaranteed seats for union representatives of the Swedish part of Asea Brown Boveri on the board of the Asea parent company.

Mr Barnevik said regional head offices for the new concern would

be established at the present group locations of Vasteras in Sweden, Baden in Switzerland, and Mannheim in West Germany.

No decision has yet been taken, however, on the important symbolic questions of the site for the planned head office for the corporate management and certain staff units, or of the domicile for the new group.

The Swedish unions are concerned that their influence on the company management will be greatly diminished if, as appears likely, the Asea Brown Boveri headquarters is located outside Sweden.

It is planned that the new concern, which will have sales of SKr100bn (\$15.2bn) and a workforce of 100,000, will be operational with effect from January 1. The deal, which was announced in early August, is the biggest cross-border merger ever made in Europe.

Groupe Bruxelles Lambert rises 2%

By William Dauterive in Brussels

GROUPE BRUXELLES Lambert, the Belgian financial and industrial holding group run by Mr Albert Frère, has reported a 2 per cent increase in profits for the first half of the year.

Consolidated profits, including contributions from minority interests, rose to BFr5.2bn (\$137.5m) for the six months to June, from BFr5.1bn in the same period of 1986. That represents a rise in earnings per share to BFr300 from BFr288 in the first half of last year. Unconsolidated profits climbed from BFr2.4bn to BFr4.2bn during the interim period.

The group said that, although it was hard to predict the full-year outcome because of the "exceptional nature of certain capital gains" and the seasonal nature of its portfolio, annual profits should show an increase over the 1986 consolidated surplus of BFr6.52bn. Barring the unexpected, there should be another increase in the dividend.

GBL and its French partner, UAP, have substantially increased their stakes in Royale Belge, the insurance company threatened with an unfriendly takeover earlier this year. GBL and UAP expect to hold 44 per cent of Royale Belge between them by the end of 1987.

This will give the insurance group a stable majority Belgian shareholder base and is in line with GBL's plans to continue developing its three main sectors, financial services, energy and the media.

Euroratings deal with Canadian group

By Our Euromarkets Staff

EURO RATINGS, the London-based bond rating agency, has signed an information sharing agreement with Canadian Bond Rating Service, the largest Canadian agency.

The Canadian agency will supply Euroratings with detailed information about Canadian corporate or government borrowers although there will be no change to the way the ratings are analysed.

Euroratings has a similar information sharing agreement with Fitch, the US ratings service which is also a shareholder.

NEW INTERNATIONAL BOND ISSUES

Issuer	Amount m	Maturity	Avg. life years	Coupon %	Price	Book Runner	Offer yield %
US DOLLARS							
Nippon Credit Bank Ltd.	100	2002	15	1 1/4	100	Nippon Credit Ltd.	1.750
Nippon Credit Bank (UK)	50	2002	15	1 1/4	100	Nippon Credit (UK)	1.750
Kapoor Corp. S	75	1997	10	(2 3/4-3)	100	Morgan Grenfell	3.250
Stanley Electric Ltd.	100	1992	5	3 1/4	100	Morgan Grenfell	7.887
Castrol Group Ltd.	50	1992	5	7 1/2	100	Nikko Secs (Europe)	..
Mayo Selsco Ltd.	50	1992	5	(3 1/4)	100	Nikko Secs (Europe)	..
Telcel Pacific Co. S	40	1992	5	(3 1/4)	100	Nikko Secs (Europe)	..
American Tel. & Tel. S	100	1998	3	8 1/4	112 1/4	US\$ (Secs)	4.883
COC Life Sciences Ltd.	75	2002	15	5 1/4	100	US\$ (Secs)	8.878
American General Corp. S	150	1994	7	8	100 1/4	US\$ (Secs)	..
Sprint Ltd. (UK)	30	1992	5	2 1/2	100 1/4	Fuji Int.	..
First Motor Credit S	200	1999	3	8 1/4	101 1/4	US\$ (Secs)	8.882
Hazem-Guel S	50	1992	5	(3 1/4)	100	Nippon Europe	..
Asahi Corp. S	30	1992	5	(3 1/4)	100	Nippon Europe	..
Medica Fin Pump Mfg. S	25	1992	5	(3 1/4)	100	Nippon Europe	..
C. Ind. Fin. Co. S	50	1992	5	(3 1/4)	100	Nippon Europe	..
Telo Paper Ind. Co. S	70	1992	5	(3 1/4)	100	Nippon Europe	..
Bank of China (UK) S	100	1994	7	5 1/4	100	Nippon Europe	5.750
Bank of China (UK) S	200	1992	5	1 1/4	101.35	Waring Securities	10.482
EB (UK) S	200	2008	13	10 1/4	98 1/4	Waring Securities	..
Sanitex Electric Ind. S	200	1992	5	(3 1/4)	100	Nippon Europe	..
CANADIAN DOLLARS							
Pro-Stacker Cap. Funding	125	1988	3	12 1/2	101 1/4	Deutsche Bk. Cap. Mkts.	10.755
Wood Gully	75	1992	5	11 1/4	100 1/4	Wood Gully	11.420
Michael Young Weir Ltd.	100	1992	5	11 1/4	101.35	Michael Young Weir Ltd.	11.134
Donkington Secs.	50	1991	4	10 1/4	113 1/2	Donkington Secs.	6.325
AUSTRALIAN DOLLARS							
Deutsche Bk. Australia S	125	1988	3	12 1/2	101 1/4	Deutsche Bk. Cap. Mkts.	12.000
EDS	75	1994	7	8 1/4	99 1/4	Deutsche Bk. Cap. Mkts.	9.173
NEW ZEALAND DOLLARS							
Hamilton Bank	50	1988	3	17	101 1/4	Hamilton Bank	16.328
Toronto-Dominion Bank S	50	1988	2	17 1/4	101 1/4	Hamilton Bank	16.959
Bank of New Zealand S	400	1992	5	(4)	100 1/4	Morgan Stanley	16.304
BIF-Bank Finance S	75	1988	2 1/2	17 1/4	101 1/4	Morgan Stanley	..
S-WINGS							
Electromat Fl. S	150	1984	7	3 1/4	100	CSFB-Electromat	3.280
Comptel Europe (UK) S	150	1995	8	(4)	100	Tridiana & Bankhardt	..
Milena Comm. Co. S	200	1997	10	8	100	Wentz	..
SWISS FRANCES							
Norona Corp. S	30	1992	..	1	100	SEC	1.900
Andros Ferry Group S	25	1988	..	4 1/4	100 1/4	Secur. Indemnt	5.590
Sec. Ind. Fund. Indemnt S	15	1988	..	4 1/4	100 1/4	Secur. Indemnt	3.982
Sec. Ind. Fund. Indemnt S	15	1988	..	4 1/4	100 1/4	Secur. Indemnt	4.250
O'Neil Ind. S	30	1985	..	5 1/4	100	Secur. Indemnt	8.951
EDF S	100	1997	..	(4)	100	SEC	..
Sec. Ind. Fund. Indemnt S	15	1988	..	4 1/4	100 1/4	Secur. Indemnt	4.443
Hydro Quebec S	100	1997	..	5 1/4	100	Secur. Indemnt	5.125
FRENCH FRANCES							
Sabry et Cie S	500	1992	5	10 1/4	101 1/4	CSF	10.130
LUXEMBOURG FRANCES							
EB S	300	1992	5	7 1/4	100	BGL	7.280
Sanitex S	300	1992	5	7 1/4	100	BGL	7.376
STERLING							
Argyl Group S	80	2002	15	4 1/4	100	CSFB	4.000
SPANISH FRANCES							
World Finance S	200	1993	8	10 1/4	99 1/4	Spanish Bank	10.588
City of Barcelona S	444	1991	4	10 1/4	100 1/4	Spanish Bank	10.388

* Not yet priced. † Final terms. ‡ With equity warrants. § Convertible. ¶ Floating rate note. †† With gold warrants. *** Private placement. ** Currency-linked. (a) Pays the Libor rate - uncalled. (b) Pays the Libor rate - investors can convert into straight bonds in Oct '88, April and Oct '90 (BPA non-callable). (c) 2 1/2% over the Libor. (d) ME 90-day bank bill rate into 50bps. (e) Via over the Libor. (f) Issued in Asia. (g) Issued in US domestic market. Note: Yields are calculated on AMD basis.

Kongsberg restructuring snags

BY KAREN FOSSLI IN OSLO

THE PROGRESS of dismantling Kongsberg Vapenfabrikk (KV), Norway's financially troubled industrial group, has run into further problems in the last stage of transferring the defence division to a new company, Norwegian Defence Technology (NDT).

Agreement in principle has been reached for NDT to acquire the physical assets of the old KV defence division, but it has been rejected by the Defence Ministry - which is to oversee the new company - and by the composition board, representing 33 foreign banks which are owed about Nkr1.8bn (\$240m) by Kongsberg. Their approval is required for the deal to go through.

Mr Jonas Myhre, the lawyer representing the creditors, has recommended that the composition board reject the deal on the grounds that the values put forward in the transaction do not sufficiently reflect the true worth of the assets.

The agreement between KV and NDT allows for outstanding contracts worth some Nkr2bn-Nkr3bn from the old KV defence division to be taken over by NDT. This transfer, however, hinges on acceptance by the customers, for whom the work is being undertaken. One contract calls for the development of the Penguin missile.

The contract could be marred by an impending US ban on dealings with Kongsberg because of earlier violations of Cocon regulations when the group, in partnership with Toshiba, supplied the Soviet Union with technology to introduce undetectable submarines.

Under the proposed financial restructuring, the creditors stand to recover only 35-40 per cent. This figure could slip to as low as 25 per cent, according to Mr Myhre. If the creditors choose to force the company into a bankruptcy, they would stand to lose Nkr500m put forward by the Norwegian Government towards a composition solution.

The exceptions were West Germany and Italy, where social security spending cuts have hit demand. The sector's profits slipped because of heavy development costs and market launch spending for zyrtec, a new anti-allergy drug.

Sales and profits in the chemicals division rose slightly while they increased "sharply" in the film sector, which includes La Cellophane Española, said the company.

UCB improves by 8% to BFr702m

BY OUR BRUSSELS STAFF

UCB, the Belgian pharmaceuticals, chemicals and films group, has unveiled an 8 per cent increase in sales and a rise in net profits from BFr681m (\$18.2m) to BFr702m for the first half of 1987.

Pre-tax profits rose more strongly, from BFr615m to BFr632m, while net turnover was up from BFr13.8bn in the first half of 1986 to BFr14.8bn. UCB attributed the sales increase to the first full contributions from La Cellophane Española, the Spanish producer of cellulose and plastic films. Earlier this year, UCB took full ownership of the Spanish group, which had formerly been a 40 per cent associate.

Turnover in pharmaceuticals, the largest division, was unchanged. However, sales of nortropil, a drug used to treat mental disabilities associated with ageing, continued to progress as the group started to extend its use to new markets, such as the treatment of dyslexia.

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NEW ISSUE

All these securities having been sold, this announcement appears as a matter of record only.

September, 1987

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UK COMPANY NEWS

David Waller looks at the recent transformation of Inchcape
Striving to shake off the colonial image

A GOOD laddie, but a damned sight over-ambitious, is how James Lyle Mackay's employer described him when in 1874 he threw up his job as a scrivener and left his native Scotland for Calcutta.

The young Mackay's ambitions proved to be justified. In time created the first Lord Inchcape, he built up a vast empire of steamships and trading companies which today take the form of P&O and the eponymous Inchcape Group.

Enter Inchcape's imposing City headquarters and one is immediately reminded of those not so far-off days. Chandeliers hang above marbled corridors and the walls are hung with pictures of exotic places like Sarawak, Assam and Zanzibar.

Up until comparatively recently, the group's stock market image was like this building, quaint and anachronistic. Inchcape seemed to be run like a family fiefdom, inappropriate in the era of companies clinically dedicated to the enhancement of earnings per share.

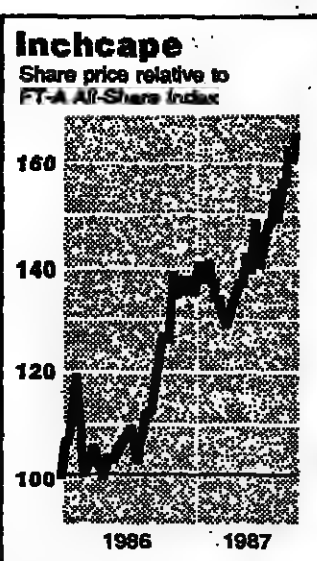
However, in the last year Inchcape has become suddenly fashionable. Its share price has outperformed the market by more than 36 per cent and in April it delivered an 86 per cent rise in pre-tax profits. The imminent sale of the City building will symbolise the end of an era.

Today, its interim profits are widely expected to be up by at least a quarter to over £50m, putting Inchcape on target for £100m in the full year. With a market capitalisation approaching £750m after a strong run ahead of today's figures, bid rumours are significantly less rampant than they were eighteen months ago.

The transformation is credited to Mr George Turnbull, Inchcape's chairman since January 1986. "The shareholders' champion", is how one analyst describes the former chairman of Talbot UK.

He has reduced the average age of senior management by a decade or so to 47-48, and has appointed Inchcape's first ever corporate treasurer to manage the group's exposure to 60 currencies. Moreover, he has reduced the group's areas of activity from a sprawling thirty to ten, divided into two tiers.

The top five - motor dealing, insurance, business machines, distribution, buying services and inspection and testing - are areas of what the company perceives to be high growth, to be supported by investment and acquisition. The second five - which include tea, timber and shipping services - are strong cash-generative businesses which will be allowed to grow at their own pace.



Inchcape
Share price relative to
FT-Air-Share Index

Having grown in the opportunistic manner appropriate to a colonial enterprise, without much in the way of central control, growth in future is to be constrained within the ten key divisions.

In line with this strategy, Inchcape has made acquisitions worth approximately £100m in the last eighteen months, broadly balanced by disposals. Of the acquisitions, that of insurance broker Clarkson Puckett for



George Turnbull - "the shareholders' champion"

£43m last December is the most significant.

In addition to making Bain Clarkson the UK's third largest retail broker, it helped redress the imbalance of UK profits to those generated overseas. This had lumbered Inchcape with a grievous unrelieved ACT problem, and the increase in dividend in April was the first in seven years.

Guinness, the drinks giant, bought Inchcape's Calbeck subsidiary for £41.5m in June this year. Calbeck distributed Johnnie Walker whisky in four Asian countries and Hong Kong, and produced pre-tax profits of £2.4m in 1986. Mr Turnbull says that profits foregone will be compensated for by interest savings.

He also argues that to have kept Calbeck would have been inconsistent with Inchcape's recently defined aim of operating only in markets where it can compete internationally.

The key activity is motor-trading, which accounted for three-fifths of last year's profits. Inchcape holds the Toyota franchise

in most European countries, including the UK, and is weathering import quotas by trading up, and has successfully passed on the risks of the appreciating yen to the manufacturer. Interim profits will show the benefit of buoyant UK trading conditions.

After the UK, Inchcape derives the largest part of its profits from the Far East and South-East Asia. Hong Kong's economy is currently thriving, and Singapore is pulling out of the doldrums.

According to Mr Turnbull, the time is now right for the market to regard Inchcape as something other than an overseas trader. That conjures up images of plantations and commodities - but our exposure to tea and timber is much reduced. We are an international services and marketing organisation.

That said, Inchcape is hardly slim-line, despite the somewhat cosmetic re-labelling of its areas of activity. The last report and accounts show that the company has some 80 subsidiaries and over 20 associates operating in 60 countries.

It acts on behalf of some 5,000 principals, and distributes products as various as Rolls-Royce cars and a type of chicken essence believed by those living in Borneo to have aphrodisiac properties. It still farms 25,000 acres of Assam tea.

For all its realignment, Inchcape has not lost its colonial charm - nor shrugged off the risks associated with a far-flung empire. Although trading conditions have recently conspired to give a good performance across the board, Inchcape will ever be vulnerable to the vagaries of currencies, commodity prices and the economies of developing nations.

The company has identified five global niches. That is the easy part. What the market wants to see now is evidence that Mr Turnbull can manage the growth as well as the rationalisation.

United
Guarantee
back in
the black

WITH THE announcement of a proposed £770,000 cash acquisition, the reconstructed United Guarantee group has issued interim figures showing a return to profits of £224,000, as expected.

Mr Robert Clarke, chairman, said all trading subsidiaries were profitable and current indications showed that continuing to be intended to re-schedule dividends with a final for 1987.

The group is involved in distribution, services and energy. It is buying Rock Engineering Distributors and Gregory & Garfield, suppliers of engineering cutting tools and related equipment from seven warehouses in the UK.

In 1986 those companies produced sales of £5.4m and a pre-tax loss of £229,000. Mr Clarke said a vigorous marketing and sales policy would be pursued to restore profitability and growth.

Following the rights issue in July, cash and near cash resources totalled around £3m. A number of acquisitions and investment opportunities in the UK and US were being evaluated.

The half time profit compared with a loss of £145,000 for the nine months to September 30 1986. Turnover this time came to £4.33m (£4.53m) and earnings were 8.7p (loss 3p) per share.

A. Caird
recovery
checked

The year to June 30 saw a check to the recovery of A. Caird & Sons, the Dundee based property investment company, with pre-tax profits of £49,000 compared with £170,000 for the previous 12 months period.

The directors said the decline in profitability during the year arose chiefly from trading difficulties and the subsequent liquidation of a major tenant in Scotland, which left the group with a number of non-income producing properties.

Continued rationalisation of the property portfolio, however, has resulted in a strengthening of the balance sheet with year-end cash balances standing at £227,000 and last year's indebtedness of £230,000 now eliminated.

The board believes that recent developments announced by the group augur well for the future of the group and look to 1988 with confidence.

Tax last year took £11,508 (£13,682) and earnings per 10p ordinary were 0.65p (2.27p). The dividend is maintained at 6.5p.

Marler Estates
profits ahead

Marler Estates, which is the subject of a reverse takeover, has announced its results for the year ended March 25 1987, showing pre-tax profit up from £368,000 to £504,000 and earnings of 5.91p, against a loss of 4.49p.

It was announced a few days ago that Berkeley House, a private housebuilder, planned a reverse takeover of Marler. It already had a 28 per cent holding in conjunction with Mr David Thompson, the co-founder of Hilldown Holdings. Full details were not expected for some weeks.

In 1986-87 Marler achieved turnover of £5.92m (£8.5m), comprising proceeds of property sales £4.33m (£7.58m) and rental receivable £1.59m (£828,000).

Operating income came through at £2.99m, compared with £2.18m, with property trading profit at £1.64m (£1.37m) and net property income £1.36m (£211,000). The dividend is again 4p.

Investment properties were revalued on March 25 at nearly £22m and showed a surplus of £13m. Taking that to account, the net asset value on that date was equal to 558.81p per share, compared with 400.63p.

There was a profit at the operating level of £298,000 (£1.81m loss) but there were interest charges of £279,000 (£310,000) and goodwill written-off this time of £87,000.

Smith took a 51 per cent stake as part of a refinancing arrangement in May this year.

FEEL HOLDINGS, the out-of-town retail property developer, has increased its stake in Trafford Park Estates, the Manchester-based property company, to 12.8 per cent. London and Edinburgh Trust has sold its holding, acquired last December.

last year's final there is still no dividend.

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URBAN RENEWAL

The Financial Times proposes to publish a survey on the above on:

Wednesday October 21 1987

Topics proposed for discussion include:

- The Scale of the Problem
- Mechanisms for Renewal
- Financing Renewal
- The Urban Workforce
- Housing
- Political Tensions
- The Future of City Centres
- London
- Overseas Experience

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Gold Fields funding of
Newmont share stakes

By Clay Harris

Consolidated Gold Fields is considering selling assets to help fund its purchase this week of an increased stake in Newmont Mining, the US gold and natural resources group under takeover threat from investors led by Texas oilman Mr T Boone Pickens.

The London-based mining finance house and construction materials group spent \$1.55bn (£947m) last Monday and Tuesday to raise the 10.2m shares in Newmont from 24.1 per cent to 49.7 per cent before being restrained from further purchases by a US court. The average cost of the shares was \$98.

Gold Fields put \$800m cash into a company set up to make the share purchases, and expects to receive another \$385m from the \$53.4 share special dividend which Newmont declared on Monday as part of its defence against Mr Pickens' takeover.

It will initially fund the remaining \$450m through increased borrowing. In due course, however, this was likely to be reduced through "redeployment of assets," Gold Fields said.

COMPANY NEWS IN BRIEF

READICUT International, the specialist textile manufacturing company, has bought M.P. Stonehouse for £2.35m, of which £0.5m was satisfied by the issue of 503,535 Readicut ordinary shares and the balance of £1.85m in cash. Stonehouse, based in West Yorkshire, spins worsted and semi-worsted yarns for the carpet, hand knitting, hosiery and needlework industries. It showed a pre-tax profit of £307,000 for the year to February 28.

BRITISH Telecommunications has given notice to the Treasury that it intends to redeem 250m of the cumulative preference shares on December 12. This is the second such tranche to be redeemed since privatisation.

GREYCOAT Group shareholders subscribed for more than 92 per cent of the 10.2m shares available in a £38.25m open offer launched to fund its £42.5m takeover of Moor House, an office block in the City of London.

HIGHAMS, privately-owned textile and property group which has voting control of Man-

chester Ship Canal, has raised its holding of the ordinary shares from 34.45 per cent to 41.16 per cent.

WHITTINGTON Engineering Group turnover for half year ended July 31 1987 was £2.94m (£289,000) and pre-tax profit £81,000 (£19,000) with earnings 1.33p (0.83p). Figures included J.W. Bonser-acquired on June 28 on merger accounting basis and took account of £30,000 loss from bulk materials handling systems. Further costs and provisions relating to sale of engineering business of £183,000 charged as extraordinary. Company believed it had seen where profits growth could be achieved.

Kingdom of Sweden

U.S. \$500,000,000

Floating Rate Notes due 2005

For the six months period 21st April, 1987 to 21st October, 1987 the interest rate will be U.S. \$366.92 payable on 21st October, 1987.

Bankers Trust Company, London Agent Bank

CVAS LIMITED

Van 2,000,000,000

Secured Floating Rate Notes due 1994

Interest Rate 4.61189% p.a. Interest Period: September 25, 1987 to 10 November 25, 1987. Interest Payable per Yen 1,000,000 Note Yen 7,174.00.

September 28, 1987, London by Citibank, N.A., (KSAI Dept.), Agent Bank

NOTICE OF REDEMPTION
to the Holders of

McDonald's Corporation

U.S. \$75,000,000

Three Year Extendible Notes due October 15, 1996

NOTICE IS HEREBY GIVEN by McDonald's Corporation (the "Company") that pursuant to Paragraph 9 of the Company's Three Year Extendible Notes due October 15, 1996 (the "Notes") and in accordance with Section 5(c) of the Fiscal Agency Agreement dated as of October 15, 1984 between the Company and Bankers Trust Company, a Fiscal Agent, the Company has elected to redeem all of its outstanding Notes on October 15, 1987, (the "Redemption Date") at the redemption price of 100% of their principal amount (the "Redemption Price"). Coupons maturing on October 15, 1987 and prior thereto should be detached and surrendered for payment in the usual manner.

On October 15, 1987, the Redemption Price will become due and payable upon all Notes, and interest on the Notes shall cease to accrue on and after that date.

All Notes, together with all interest coupons appertaining thereto maturing after the Redemption Date, are to be surrendered for payment of the Redemption Price at the specified offices of any one of (a) Bankers Trust Company in London, (b) Amsterdam-Rotterdam Bank N.V. in Amsterdam, (c) Bankers Trust GmbH Frankfurt/Main in Frankfurt, (d) Bankers Trust Company in Paris, (e) Société Générale de Banque SA/Général Bankenschaep NV in Brussels, (f) Banque Générale du Luxembourg S.A. in Luxembourg, and (g) Banque Générale du Luxembourg (Suisse) S.A. in Zurich.

Bankers Trust Company, London Agent Bank
September 14, 1987

FINANCIAL TIMES STOCK INDICES

	Sept. 25	Sept. 24	Sept. 23	Sept. 22	Sept. 21	Sept. 20	1987 High	1987 Low	Since Compilation High	Since Compilation Low
Government Secs.	85.45	85.39	86.38	86.60	86.87	86.45	93.32	84.49	127.4	49.18
Fixed Interest	91.64	91.72	92.11	92.21	92.41	91.96	99.12	90.25	150.4	50.53
Ordinary	1831.6	1811.9	1843.2	1831.8	1837.3	1833.2	1926.1	1320.2	1926.2	49.4
Gold Mines	467.1	466.7	451.7	447.7	438.3	439.2	497.5	288.2	734.7	43.5
FT-Act All Share	1195.42	1181.64	1198.58	1190.32	1190.84	1188.42	1238.57	835.48	1238.57	61.92
FT-SE 100	2342.6	2313.4	2352.4	2336.2	2334.8	2328.1	2443.4	1674.5	2443.4	98.6

PHOTAX (LONDON) PLC

to be renamed Arley Holdings PLC

Incorporated in England under the Companies Act 1928 (No. 420886)

Introduction to the Official List and Rights Issue of 500,000 new Ordinary Shares of 25p each

SHARE CAPITAL

(assuming implementation of the Rights Issue and completion of the acquisition of Plastand Limited, Martin & Field (Manufacturing) Limited and the issued share capital of Martin & Field Limited not owned by Martin & Field (Manufacturing) Limited)

Authorized 1,483,333
500,000

Issued 1,075,000
500,000

1483,333 Ordinary Shares of 25p each
500,000 11% Cumulative Preference Shares of £1 each

Photax (London) PLC manufactures and imports photographic equipment. It is proposed that the Company will change its name to Arley Holdings PLC and operate as a holding company of a group of companies operating in the photographic products and engineering sectors.

Application has been made to the Council of The Stock Exchange for the new Ordinary shares to be listed pursuant to the Rights Issue and the acquisition of the companies named above to be admitted and the existing Ordinary shares and Preference Shares, whose listing was suspended in July 1987, to be readmitted to The Official List. Dealings are expected to commence on 1st October, 1987. Stockbrokers to Photax (London) PLC are de Zoete & Bevan Limited.

Listing particulars dated 4th September, 1987 relating to Photax (London) PLC are available in the External Statistical Services, and copies of such particulars may be obtained during normal business hours up to and including 30th September, 1987 from the Company Announcements Office, The Stock Exchange, London EC2 and up to and including 14th October, 1987 from Photax (London) PLC, Hampden Park, Eastbourne, East Sussex, BN22 9BB and from:-

Hill Samuel & Co. Limited
100, Wood Street
London EC2P 2AJ

28th September 1987

LVMH

MOËT HENNESSY • LOUIS VUITTON

A French "société anonyme"

Share capital of 549, 571,550 French Francs

Registered Office: 30 avenue Hoche-75008 PARIS

Registered with the Registre du Commerce et des Sociétés under reference PARIS B 775 670 417

US\$50,000,000 7 PER CENT CONVERTIBLE BONDS DUE 1999

NOTICE TO BONDHOLDERS

UK COMPANY NEWS

Number One Charlotte Square

The Independent Investment Company, PLC

(An investment company under Section 266 of the Companies Act 1985)
(Registered in England No 194 824)

Issue of 84,000,000 Ordinary Shares of 25p each and 11,200,000 Warrants to subscribe for Ordinary Shares of 25p each in The Independent Investment Company, PLC.

The above mentioned securities have been admitted to the Official List of The Stock Exchange. Dealings in the Ordinary Shares and the Warrants will commence on 28th September, 1987.

Particulars of the Ordinary Shares and the Warrants are available in the statistical services of Extel Statistical Services Limited. Copies of the Listing Particulars relating to the Warrants may be obtained during normal business hours from the Company Announcements Office of the Quotations Department (for collection only) up to and including 30th September, 1987 or during normal business hours on any weekday (Saturdays excepted) up to and including 12th October, 1987 from:

The Independent Investment Company, PLC
Broad Street House 3rd Floor
55 Old Broad Street
London
EC2P 2HL

de Zoete & Bevan Limited
Ebbgate House
2 Swan Lane
London EC4R 3TS

Ivory & Sims plc
One Charlotte Square
Edinburgh
EH2 4DZ

28th September 1987

This advertisement is issued in compliance with the requirements of the Council of The Stock Exchange. It does not constitute an offer or an invitation to the public to subscribe for or purchase any securities.

Liberty surges ahead to £2.2m at six months

Improvements in management, product and retail selling space are reflected in an upsurge of £1.78m to £2.2m in pre-tax profits of Liberty, retailer, merchant converter and wholesaler, for the half year to August 1.

Margins, trading profit to turnover, have improved from 2.9 to 6 per cent, with rises from £764,000 to £1.81m and from £26.45m to £30.09m respectively.

A breakdown of the trading profit shows the UK with £502,000 compared with a previous loss of £163,000; the Netherlands with a £188,000 loss against an £11,000 profit and US losses down from £107,000 to £84,000. Converting and wholesaling almost doubled from £577,000 to £1.15m; printing amounted to £194,000 (£229,000) while net rent from properties was up from £157,000 to £216,000.

Included in the six month figures were exceptional credits of £517,000 (nil); interest amounted to £127,000 (£247,000); tax to £280,000 (£176,000) and minorities were £17,000 (£27,000).

Earnings before exceptional items were 15.32p (2.83p) and 20.27p (2.83p) after. The interim dividend is raised from 1.8p to 2.6p per 25p share; last year's total payment was 9p.

The directors said that normally the greater part of profits are realised during the second half. The level of group sales since the end of the first half is encouraging and the wholesale order book shows a satisfactory volume growth. They look forward with confidence to reporting an enhanced level of profit this year.

Oilfield Inspection Services losses increase slightly

Oilfield Inspection Services Group, which provides inspection, testing, heat treatment services and associated equipment, incurred slightly heavier losses in the first half of 1987 than it did in the comparable period last year. Losses amounted to £188,000 - £14,000 more than the restated comparison.

Turnover fell from £6.63m to £4.89m. There was a tax credit of £33,000 compared with £540,000 last time and minorities accounted for £12,000 (nil). Last year's extraordinary debit of £150,000, which represented provision for the possible under-recovery of amounts due from the company's Malaysian venture, was not repeated. Losses per 20p share increased from 1.7p to 2.3p. The company has not paid a dividend since a final of 1p for 1985.

However, with the relative stability in world oil prices in recent months, the directors said that they saw encouraging signs of improvement in the company's oil and gas-related markets. They said that it might be some time before this improvement led to significant profits, particularly given the continuing severity of competition in the oil services sector, where there was still substantial over-capacity.

They added that the steps which the company had taken since last year's dramatic events within the oil industry provided a foundation for its second half performance being considerably better than in the second half of 1986.

In Oilfield's main overseas operations - the US, Middle East and Malaysia - turnover fell 37 per cent to £290,000 and it was able to adapt to the fall without incurring additional losses. It had implemented plans for the elimination of losses in Malaysia.

Elsewhere Oilfield was vigorously pursuing its strategy of concentrating on its core business of inspection and related services both in the energy and nuclear reprocessing industries and it was optimistic regarding its prospects in these markets in the foreseeable future. It still intended to dispose of its engineering business.

Higher interest charges hit Wm. Sindall profits

HIGHER interest charges, up from £170,000 to £360,000, have caused a fall in pre-tax profits of William Sindall, building contractor and civil engineer, from £195,000 to £175,000 in the half year to June 30.

Turnover, including other operating income, in the period was up from £18.4m to £21.44m and the operating profit rose from £265,000 to £335,000. Tax charged was £15,000 (£12,000).

leaving earnings per 25p share of 2.7p (3p) for the 0.6p interim dividend.

Mr Harold Ridgeon, chairman, said that since the end of the half year the company has had some success with the disposal of major developments, although interest payments remain high. The continued growth of turnover and operating profit was satisfactory.

Bemrose improvement

BENEFITTING from an advance in security printing profits and continuing excellent performance of Souvenir Pen, the Bemrose Corporation lifted its pre-tax profit from £707,000 to £873,000 in the first half of 1987.

Turnover moved ahead from £18m to £20m. The period included a first contribution from the US businesses acquired at the end of 1986.

A strong new management team with a powerful marketing force had been set up in the US. That would be costly in the short term, but the company believed the potential of the US operations was even higher than first envisaged and must be developed.

In summary, the directors said a sound start was made in the first half and profits would have been higher but for the relative weakness of the dollar. Profits would again be realised predominantly in the second half that period of 1986 produced £2.8m.

Earnings for the six months came to 3.96p (3.6p) and the interim dividend is 3.5p (3p).

Dividends resumed at Baldwin

Baldwin, investment, property and concrete making group, lifted its turnover from £2.51m to £3.2m and pre-tax profit from £24,000 to £247,000 in the year ended April 30 1987.

Dividends are resumed with a 1.25p payment. Earnings were 4p (0.82p). Results of Beaver Concrete and Vendolods were included for some 3½ months. In May nearly two-thirds of the company's capital changed hands. The directors said they have reviewed the operations and intended to expand those and diversify. A number of opportunities were being considered.

Ferry Pickering up to £2.25m

Ferry Pickering Group, engaged in printing, packaging and publishing, raised its pre-tax profits from £2.09m to £2.25m on turnover up from £13.81m to £15m for the year to June 30 1987.

A final dividend of 2.4p (2.1p) is recommended making 4p (3.5p) for the year. Earnings per share rose to 12.55p (10.75p). Tax came to £741,000 (£802,000); minorities £7,000 (£8,000) and there was an extraordinary credit of £222,000 (nil).

F.T. Share Information

The following securities have been added to the Share Information Service:
Nationwide Anglia 10 per cent Bds. 1/8/88 and 10½ per cent Bds. 2/8/88 (Section: Loans-Building Societies).

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indicators are not available as to whether the dividends are interim or final and the sub-divisions shown below are based mainly on last year's thresholds.

TODAY
Interline, Bowthorpe, Godfrey Davis, Easys of 4 Wines, Estates and General Investments, Equity and General Investments, Homby, Ingham, Maggill, John Merzies, Metaxas, Microsys, John Wilmott, Radley, Scott and Robertson, Shetley, Tootal, West Blake, Beane, World of Leisure.

Friday
Fife, Fli Group, Honeywicks, MAF, Parker Knox Property, Space Planning Services, Tetford Park Estates, Westwood International.

FUTURE DATES
Interline:
Ansett International, Corpac, Easys of 4 Wines, Estates and General Investments, Equity and General Investments, Homby, Ingham, Maggill, John Merzies, Metaxas, Microsys, John Wilmott, Radley, Scott and Robertson, Shetley, Tootal, West Blake, Beane, World of Leisure.
Friday:
Fife, Fli Group, Honeywicks, MAF, Parker Knox Property, Space Planning Services, Tetford Park Estates, Westwood International.

U.S. \$40,000,000 Industrial Bank of Finland Ltd.

(Suomen Teollisuuspankki Oy)

Guaranteed Floating Rate Notes Due 1994



In accordance with the provisions of the Notes, notice is hereby given that for the six month interest period from 28th September 1987 to 28th March 1988 the Notes will carry an interest rate of 8¼% per annum and the Coupon Amount per US\$10,000 will be US\$410.76.

Merrill Lynch International Bank Limited
Agent Bank

Isvaimer

U.S. \$100,000,000

Floating Rate Participation Certificates Due 1992

Issued by Morgan Guaranty GmbH for the purpose of making a loan to

Istituto per lo Sviluppo Economico dell'Italia Meridionale

(a statutory body of the Republic of Italy incorporated under Law No. 298 of April 11, 1953)

In accordance with the terms and conditions of the Certificates, the rate of interest for the Interest Determination Period 28th September, 1987 to 28th October, 1987 has been fixed at 8¼%. Interest accrued for the above period and payable on 29th January, 1988 will amount to US\$67.19 per US\$10,000 Certificate.

Agent
Morgan Guaranty Trust Company of New York
London Branch

COATES BROTHERS PLC INTERIM ANNOUNCEMENT PROFIT UP 54%

Financial highlights for six months ended 30 June*

	1987	1986	Increase
	£m	£m	%
TURNOVER	100.9	96.7	4.3
OPERATING PROFIT	10.2	7.7	33.4
PROFIT BEFORE TAXATION	10.4	6.8	54.1
EARNINGS PER SHARE	15.49p	9.33p	66.0
DIVIDEND PER ORDINARY AND "A" ORDINARY SHARE	2.2p	1.7p	29.4

*Unaudited

COATES BROTHERS PLC

World-wide printing inks and synthetic resins group

4-5 GROSVENOR PLACE
LONDON SW1Y 7HJ



WHICH LEADING
INVESTMENT HOUSE IS MAKING
A NEW ENTRANCE?

This advertisement is issued in compliance with the requirements of the Council of The Stock Exchange. It does not constitute or contain an offer or invitation to any person to subscribe for or purchase any securities of Anglo Leasing plc.

ANGLO LEASING plc

(Registered in England No. 733399)

SHARE CAPITAL

Authorised
£5,000,000

in ordinary shares of 10p each

Issued and
now being issued fully paid
£3,283,949

Anglo Leasing plc ("the Company") and its subsidiaries provide sales support for suppliers of business equipment through the provision of leasing and instalment credit facilities for their customers in the United Kingdom.

8,209,873 ordinary shares in the Company have been offered to the holders of ordinary shares and warrants to subscribe ordinary shares of J. Rothschild Holdings plc, subject to preferential applications from employees of the Company and its subsidiaries for up to 10 per cent. of those shares. The ordinary shares were offered to investing institutions by S. G. Warburg & Co. Ltd. and have been conditionally accepted by such institutions.

Application has been made to the Council of The Stock Exchange for the ordinary share capital of the Company, issued and now being issued, to be admitted to the Official List. It is expected that such admission will become effective, and that dealings will commence, on 2 October, 1987. Information relating to the Company and its subsidiaries is available in the statistical services of Extel Financial Limited. Copies of the listing particulars may be obtained during usual business hours on any weekday (Saturdays excepted) up to and including 12 October, 1987 from:-

Anglo Leasing plc,
Anglo House,
2 Clerkenwell Green,
London EC1R 0DH

S. G. Warburg & Co. Ltd.,
33 King William Street,
London EC4R 9AS

Kitcat & Aitken & Co.,
The Stock Exchange,
London EC2N 1HB

National Westminster Bank PLC,
New Issues Department,
2 Princes Street,
London EC2P 2BD

Company Announcements Office,
The Stock Exchange,
Throgmorton Street,
London EC2P 2BT
(until 30 September, 1987 only)

28 September, 1987

Why Blue Arrow's acquisition of Manpower points to the future of corporate advice.

Size.

Not only did it call for the UK's biggest-ever rights issue, Blue Arrow's target was also the biggest recruitment agency in the world.

Speed.

The entire financing was arranged in just three weeks, in complete confidentiality

Co-ordination.

County NatWest advised on the takeover and, with National Westminster Bank, provided all the firepower Blue Arrow needed.

Complexity.

Combining a rights issue, £/\$ hedging, bridging finance, working capital and a revolving credit, the financing called for an unusually large number of strings to our bow

Imagination.

In short, the deal proves that there is a bank with the capital backing, imagination, skills and commitment to enable you to succeed, no matter how high you've set your sights.

COUNTY NATWEST

Telephone: 01-382 1000

WORLD MARKETS

FT-ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	FRIDAY SEPTEMBER 25 1987					THURSDAY SEPTEMBER 24 1987					DOLLAR INDEX				
	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	1987 High	1987 Low	Year ago	Year ago	Year ago
Australia (93)	175.32	-0.9	158.25	161.03	2.44	176.83	-1.0	158.25	161.03	2.44	180.81	99.92	82.98		
Austria (16)	100.75	-0.8	90.94	95.99	2.17	101.30	-0.5	90.94	95.99	2.17	102.87	85.53	93.35		
Belgium (48)	127.84	-0.4	115.39	119.38	1.98	128.15	-0.2	115.39	119.38	1.98	129.89	95.19	88.99		
Canada (129)	126.63	+0.3	123.50	129.99	2.30	126.63	+0.3	123.50	129.99	2.30	130.03	100.00	96.92		
Denmark (39)	116.66	-0.6	105.30	111.11	2.56	117.32	-0.6	105.30	111.11	2.56	117.70	98.18	96.96		
France (121)	111.74	-0.7	100.86	108.40	2.65	112.50	-0.7	100.86	108.40	2.65	113.30	94.07	91.62		
Germany (92)	100.60	-0.2	90.80	95.21	1.99	100.84	-0.2	90.80	95.21	1.99	101.30	94.07	91.62		
Hong Kong (45)	153.08	+1.9	158.17	153.40	2.37	153.07	+1.9	158.17	153.40	2.37	153.08	96.99	88.84		
Ireland (14)	145.97	+0.8	131.75	139.82	2.21	146.86	+0.8	131.75	139.82	2.21	147.86	95.20	82.60		
Italy (76)	123.44	+1.5	123.44	123.44	2.04	123.44	+1.5	123.44	123.44	2.04	123.44	95.20	82.60		
Japan (58)	143.59	+0.3	129.60	130.37	0.53	143.59	+0.3	129.60	130.37	0.53	143.59	95.20	82.60		
Malaysia (36)	173.70	+0.7	156.79	168.71	2.18	173.70	+0.7	156.79	168.71	2.18	173.70	98.24	89.68		
Mexico (14)	179.89	-0.4	142.90	146.08	2.48	180.23	-0.4	142.90	146.08	2.48	180.23	95.20	82.60		
Netherlands (37)	123.44	+0.2	111.43	115.44	3.89	123.44	+0.2	111.43	115.44	3.89	123.44	95.20	82.60		
New Zealand (24)	133.94	-1.1	120.54	120.25	2.71	133.94	-1.1	120.54	120.25	2.71	133.94	83.99	72.85		
Norway (24)	179.10	+0.6	161.67	161.67	1.87	179.10	+0.6	161.67	161.67	1.87	179.10	100.00	100.00		
Singapore (27)	123.44	+0.2	111.43	115.44	3.89	123.44	+0.2	111.43	115.44	3.89	123.44	95.20	82.60		
South Africa (61)	123.44	+0.2	111.43	115.44	3.89	123.44	+0.2	111.43	115.44	3.89	123.44	95.20	82.60		
Spain (43)	123.44	+0.2	111.43	115.44	3.89	123.44	+0.2	111.43	115.44	3.89	123.44	95.20	82.60		
Sweden (33)	130.29	+0.1	117.61	122.25	1.64	130.29	+0.1	117.61	122.25	1.64	130.29	92.01	87.09		
Switzerland (13)	123.44	+0.2	111.43	115.44	3.89	123.44	+0.2	111.43	115.44	3.89	123.44	95.20	82.60		
United Kingdom (333)	157.69	+1.5	142.34	142.34	3.16	157.69	+1.5	142.34	142.34	3.16	157.69	95.20	82.60		
USA (586)	130.69	+0.1	117.61	122.25	1.64	130.69	+0.1	117.61	122.25	1.64	130.69	92.01	87.09		
Europe (929)	128.12	+0.7	115.65	118.81	2.79	128.12	+0.7	115.65	118.81	2.79	128.12	97.78	92.31		
Pacific Basin (683)	145.07	+1.2	130.89	132.24	2.17	145.07	+1.2	130.89	132.24	2.17	145.07	97.78	92.31		
Asia-Pacific (1612)	123.44	+0.2	111.43	115.44	3.89	123.44	+0.2	111.43	115.44	3.89	123.44	95.20	82.60		
North America (715)	131.01	+0.1	118.26	120.54	2.78	131.01	+0.1	118.26	120.54	2.78	131.01	95.20	82.60		
Europe Ex. UK (596)	109.75	+0.0	99.06	104.10	2.45	109.75	+0.0	99.06	104.10	2.45	109.75	98.02	93.43		
Pacific Ex. Japan (225)	162.73	+0.1	146.89	146.89	2.48	162.73	+0.1	146.89	146.89	2.48	162.73	95.20	82.60		
World Ex. US (1016)	123.44	+0.2	111.43	115.44	3.89	123.44	+0.2	111.43	115.44	3.89	123.44	95.20	82.60		
World Ex. UK (2049)	133.55	+0.6	120.54	120.54	2.71	133.55	+0.6	120.54	120.54	2.71	133.55	100.00	96.96		
World Ex. So. Afr. (2341)	139.36	+0.7	122.18	128.65	1.99	139.36	+0.7	122.18	128.65	1.99	139.36	100.00	95.99		
World Ex. Japan (1944)	131.95	+0.3	119.10	127.94	2.71	131.95	+0.3	119.10	127.94	2.71	131.95	94.63	90.65		
The World Index (2402)	135.69	+0.7	122.48	128.73	2.00	135.69	+0.7	122.48	128.73	2.00	135.69	100.00	96.04		

Base values: Dec 31, 1985 = 100
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EUROPEAN OPTIONS EXCHANGE

Series	Nov 87		Feb 88		May 88		Stock	
	Vol.	Last	Vol.	Last	Vol.	Last		
GOLD P	5480	27	9	19.50			\$463.20	
GOLD P	5500	199	2	15.50	51	21.50	"	
GOLD P	5620	4					"	
GOLD P	5440	45	4	104			"	
GOLD P	5460	5	9.20				"	
Oct. 87								
S/P/L	P.200	23	80	5.40	4	6.20	FL204.00	
S/P/L	P.205	22	145	3.20	3	3.60	"	
S/P/L	P.210	1.80A	30	1.10		1.60	"	
S/P/L	P.215	"			30	1.30	"	
S/P/L	P.220	"		1.50	10	2.70	"	
S/P/L	P.225	15	21.08	21	100	11.20	"	
S/P/L	P.230	"			100	11.20	"	
S/P/L	P.235	"					"	
Mar. 88								
S/P/L	P.190	200	14.80				FL204.00	
S/P/L	P.195	"		7.40			"	
S/P/L	P.205	12	5	12	5.50		"	
S/P/L	P.210	"		15	7.80		"	
S/P/L	P.220	"		15			"	
S/P/L	P.230	1	9.80				"	
Jun. 88								
S/P/L	P.190							
S/P/L	P.195							
S/P/L	P.205							
S/P/L	P.210							
S/P/L	P.220							
S/P/L	P.230							
Apr. 88								
ABN C	P.152	425	0.10	48	1.40	2	2.40	FL444.00
ABN C	P.144	97	0.04A	280	4.70	4	2.10	"
AEGON C	P.170	14	1.10	420	1.90			FL486.40
AEGON C	P.160	4		44	6.30			"
AHOLD C	P.110	4	0.60	30	3.70			FL104.00
AHOLD C	P.105	1		4	6.50			"
AHOLD C	P.95.50	1		2	1.50			"
AKZO C	P.170	224	4	657	0.80	17	10	FL176.90
AKZO C	P.164	14	0.20	100	1.20			"
AMC C	P.170	15	0.10	10	4.40			FL19.80
AMC C	P.165	135	1.10	135	5.50			"
AMC C	P.160	35	7.30	108	4.40	7		P.19
AMRO C	P.190	39	1.30	138	4.80			"
AMRO C	P.185	15	1.30	138	4.80			"
AMRO C	P.180	15	1.30	138	4.80			"
AMRO C	P.175	15	1.30	138	4.80			"
AMRO C	P.170	15	1.30	138	4.80			"
AMRO C	P.165	15	1.30	138	4.80			"
AMRO C	P.160	15	1.30	138	4.80			"
AMRO C	P.155	15	1.30	138	4.80			"
AMRO C	P.150	15	1.30	138	4.80			"
AMRO C	P.145	15	1.30	138	4.80			"
AMRO C	P.140	15	1.30	138	4.80			"
AMRO C	P.135	15	1.30	138	4.80			"
AMRO C	P.130	15	1.30	138	4.80			"
AMRO C	P.125	15	1.30	138	4.80			"
AMRO C	P.120	15	1.30	138	4.80			"
AMRO C	P.115	15	1.30	138	4.80			"
AMRO C	P.110	15	1.30	138	4.80			"
AMRO C	P.105	15	1.30	138	4.80			"
AMRO C	P.100	15	1.30	138	4.80			"
AMRO C	P.95	15	1.30	138	4.80			"
AMRO C	P.90	15	1.30	138	4.80			"
AMRO C	P.85	15	1.30	138	4.80			"
AMRO C	P.80	15	1.30	138	4.80			"
AMRO C	P.75	15	1.30	138	4.80			"
AMRO C	P.70	15	1.30	138	4.80			"
AMRO C	P.65	15	1.30	138	4.80			"
AMRO C	P.60	15	1.30	138	4.80			"
AMRO C	P.55	15	1.30	138	4.80			"
AMRO C	P.50	15	1.30	138	4.80			"
AMRO C	P.45	15	1.30	138	4.80			"
AMRO C	P.40	15	1.30	138	4.80			"
AMRO C	P.35	15	1.30	138	4.80			"
AMRO C	P.30	15	1.30	138	4.80			"
AMRO C	P.25	15	1.30	138	4.80			"
AMRO C	P.20	15	1.30	138	4.80			"
AMRO C	P.15	15	1.30	138	4.80			"
AMRO C	P.10	15	1.30	138	4.80			"
AMRO C	P.5	15	1.30	138	4.80			"
AMRO C	P.0	15	1.30	138	4.80			"
AMRO C	P.0	15	1.30	138	4.80			"
AMRO C	P.0	15	1.30	138	4.80			"
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AMRO C	P.0	15	1.30	138	4.80			"
AMRO C	P.0	15	1.30	138	4.80			"
AMRO C	P.0	15	1.30	138	4.80			"
AMRO C	P.0	15	1.30	138	4.80			

Twice

- Continued on next page

FT UNIT TRUST INFORMATION SERVICE

Manufacturers Life Insurance - Conts. Manufacturers Life Insurance Co. Ltd. 100 Broad Street, London E14 3JF 071 486 9171 Manufacturers Life Insurance Co. Ltd. 100 Broad Street, London E14 3JF 071 486 9171	Norwich Union Asset Management Ltd PO Box 124, Norwich NR1 1J5 0603 643986 Norwich Union Asset Management Ltd PO Box 124, Norwich NR1 1J5 0603 643986	Provincial Life Assurance Co Ltd 100 Broad Street, London E14 3JF 071 486 9171 Provincial Life Assurance Co Ltd 100 Broad Street, London E14 3JF 071 486 9171	Royal Heritage Life Assurance Co Ltd 100 Broad Street, London E14 3JF 071 486 9171 Royal Heritage Life Assurance Co Ltd 100 Broad Street, London E14 3JF 071 486 9171	Scottish Life Assurance Co Ltd 100 Broad Street, London E14 3JF 071 486 9171 Scottish Life Assurance Co Ltd 100 Broad Street, London E14 3JF 071 486 9171	Target Life Assurance Co. Ltd. 100 Broad Street, London E14 3JF 071 486 9171 Target Life Assurance Co. Ltd. 100 Broad Street, London E14 3JF 071 486 9171	Widmore & Co. Ltd. 100 Broad Street, London E14 3JF 071 486 9171 Widmore & Co. Ltd. 100 Broad Street, London E14 3JF 071 486 9171	Baring Fund Managers (Guernsey) Ltd 100 Broad Street, London E14 3JF 071 486 9171 Baring Fund Managers (Guernsey) Ltd 100 Broad Street, London E14 3JF 071 486 9171	Barings Fund Managers (Guernsey) Ltd 100 Broad Street, London E14 3JF 071 486 9171 Barings Fund Managers (Guernsey) Ltd 100 Broad Street, London E14 3JF 071 486 9171
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FT UNIT TRUST INFORMATION SERVICE

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LONDON SHARE SERVICE

[illegible]

Money Market Bank Accounts

[illegible]

MINES—Continued[illegible]

Water Exp'n. HL.	38	1
VPan Aust. Mining 25c.	268	1

[illegible]

Avr. Bttn SMD _____ **Time** _____ 95-03-1

[illegible]

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[illegible]

Publishing Rights Sp.	62	—	0
Theme Holdings	73	27.4	1

UPT Group	286	15.61	2.1
Met Group	386	18.42	2.5
Met Group	104	5.43	0.7

NOTES

Unless otherwise indicated, prices and net discounts are in pence per tonne (metric ton). The following price differentials are based on quotations on Intercontinental Petroleum Reports and accounts and, where indicated on half-yearly figures. PEXs are calculated on "net" discounts, excluding per share being computed on profit after taxation. The following PEXs are applicable: broken figures indicate a point or more difference if calculated on "air" discounts. Conversion on "maximum" (above) basis; this compares gross discounts on profit after taxation, excluding credit for other price differentials, with estimated extent of offsettable A/GT. Yields are based on chemical grade, adjusted to A/GT of 87 per cent and allow for value of the distribution and rights.

- * "Air" Sheds.
- * Rights and Loans incurred (see how have been adjusted to allow for PEXs).
- * Includes share premium and other reserves.
- * Includes share premium and other reserves.

to non-residents on application.
or report awaited.

[illegible]

Dividend and yield exclude a special dividend. Payout ratio relates to previous dividend, P/E ratio to previous earnings.

REGIONAL & IRISH STOCKS
The following is a selection of the:

quoted in Irish currency.

Crate & Coop 21	738		APR	375
Picker 100	130	-1	CPI Hdg.	650
Full Load 200	234		CRS	285
Full Load 21	248		Dollar Gen	400
			Golden Eagle	150
			Holmes H.L.	450
			Irish Ropes	210
			Leathers	420

Plaid 21, 41, 100	2300	
Plaid 21, 41, 100	2300	

TRADITIONAL OPTIONS

3-month call rates

Industrials	#	NEI	
Allied-Lyons	48	Flat West Br	
Amstar	19	P & D	
BAT	62	Penny	
CCO Corp.	30	Poly Pack	
CSR	37	Real Elect	
BYT	32	RHM	
Sealed Air	36	Shoe Corp	

STC

Roots	38	Sears	38
Rowlands	38	TI	38
Robt. Armstrong	38	TSB	38
Brit. Telecom	38	Tesco	38
Barrow Ord	38	Thorn EMI	38
Coventry	38	Trust Houses	38
Charter Const	38	Turner Newall	38
Comm Union	45	Unilever	45
Coventry	45	Victoria	45
FNPT	45	Wellcome	45
Gen Accident	45	Property	45
GEC	45	Brit Land	45
GEC	225	and Securities	225
Grand Met	50	MEPC	50
GUS '91	225	Passey	225
Guardian	50		
GPO	50	Gills	50
Hampson Ltd	17	Brit Petroleum	17
Harman Kidd	17	British	17
ICI	225	Burness Oil	225
ICI	225	Charwell	225
Jaguar	52	Premier	52
Ladbroke	52	Shell	52

43 **Incentrol**.....
45 **Ultrason**.....

Lucas Trade	75	Mines
Marks & Spencer	22	Corn Gold
Mitochondria	65	London
Morgan Grenfell	50	Rio T Zinc

A selection of Options traded is given on the
London Stock Exchange Report Page.

WORLD STOCK MARKETS

AUSTRIA

1987	Low	High	Close	Change
2400	1890	2200	2200	+110
3400	2400	2800	2800	+400
12000	10000	14000	14000	+4000
14000	12000	16000	16000	+2000
2100	1700	2500	2500	+800
700	540	710	710	+170
167	108	167	167	+59
1112	690	1600	1600	+910

BELGIUM/LUXEMBOURG

1987	Low	High	Close	Change
3400	2900	3900	3900	+500
14000	12000	16000	16000	+2000
15000	13000	17000	17000	+2000
13700	12000	15000	15000	+3000
6800	5900	7700	7700	+900
1200	1000	1400	1400	+200
1300	1100	1500	1500	+200
1700	1500	1900	1900	+200
2000	1800	2200	2200	+200
2300	2100	2500	2500	+200
2600	2400	2800	2800	+200
2900	2700	3100	3100	+200
3200	3000	3400	3400	+200
3500	3300	3700	3700	+200
3800	3600	4000	4000	+200
4100	3900	4300	4300	+200
4400	4200	4600	4600	+200
4700	4500	4900	4900	+200
5000	4800	5200	5200	+200
5300	5100	5500	5500	+200
5600	5400	5800	5800	+200
5900	5700	6100	6100	+200
6200	6000	6400	6400	+200
6500	6300	6700	6700	+200
6800	6600	7000	7000	+200
7100	6900	7300	7300	+200
7400	7200	7600	7600	+200
7700	7500	7900	7900	+200
8000	7800	8200	8200	+200
8300	8100	8500	8500	+200
8600	8400	8800	8800	+200
8900	8700	9000	9000	+100
9200	9000	9400	9400	+200
9500	9300	9700	9700	+200
9800	9600	10000	10000	+200
10100	9900	10300	10300	+200
10400	10200	10600	10600	+200
10700	10500	10900	10900	+200
11000	10800	11200	11200	+200
11300	11100	11500	11500	+200
11600	11400	11800	11800	+200
11900	11700	12100	12100	+200
12200	12000	12400	12400	+200
12500	12300	12700	12700	+200
12800	12600	13000	13000	+200
13100	12900	13300	13300	+200
13400	13200	13600	13600	+200
13700	13500	13900	13900	+200
14000	13800	14100	14100	+100
14300	14100	14500	14500	+200
14600	14400	14800	14800	+200
14900	14700	15100	15100	+200
15200	15000	15400	15400	+200
15500	15300	15700	15700	+200
15800	15600	16000	16000	+200
16100	15900	16300	16300	+200
16400	16200	16600	16600	+200
16700	16500	16900	16900	+200
17000	16800	17100	17100	+100
17300	17100	17500	17500	+200
17600	17400	17800	17800	+200
17900	17700	18100	18100	+200
18200	18000	18400	18400	+200
18500	18300	18700	18700	+200
18800	18600	19000	19000	+200
19100	18900	19300	19300	+200
19400	19200	19600	19600	+200
19700	19500	19900	19900	+200
20000	19800	20100	20100	+100

DENMARK

1987		Aug. 25	Price
High	Low		Per %
1140	720	Baltica Hides	1020.00
2885	230	Cap Handelsbank	256.00
410	287	D. Seefisch	350.00
277	277	Dee Dander Bank	350.00
228	160	East Asiatic	158.00
1040	805	Forensed Brygg	905.00
357	211	GNT Holding	230.00
880	695	I.S.S.B. Systems	615.00
575	455	Lyse Bank	390.00
290	200	Lyse Bank	208.00
265	243	Privatebanken	262.00
1050	675	Sophus Berendsen	1000.00
254	149	Supertoro	239.00

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